



FILED

2-26-16

8:47 PM

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning and Evaluation of Integrated Distributed Energy Resources

Rulemaking 14-10-003
(Filed October 2, 2014)

**JOINT ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE
RULING AND AMENDED SCOPING MEMO**

This Joint Assigned Commissioner and Administrative Law Judge Ruling and Revised Scoping Memo (Scoping Memo) modifies Phase I of the scope of this proceeding.¹ Subsequent to the adoption of Decision (D)15-09-022, which authorized an expanded scope for this proceeding, and the issuance of a Ruling and scoping memo in Rulemaking (R.) 14-08-013 et al.,² this Scoping Memo broadens the issues to be addressed in Phase I to include: 1) a determination of how the distributed energy resources, needed to fill the required characteristics and the values – to be determined in R.14-08-013 et al. – will be procured;³ 2) a focus on the integration of distributed energy resources⁴ in a holistic way;⁵ and

¹ The original scope of this proceeding was adopted in the January 5, 2015, *Joint Assigned Commissioner and Administrative Law Judge Ruling and Scoping Memo*.

² The Commission initiated R.14-08-013 et al. to establish policies, procedures, and rules to guide regulated energy utilities in developing their distribution resources plans as required by Public Utilities Code Section 769.

³ As directed in D.15-09-022, Ordering Paragraph 1.

⁴ The proceeding uses the same categories of distributed energy resources as those in R.14-08-013. See February 6, 2015 Assigned Commissioner Ruling in R.14-08-013.

3) a consideration of the adoption of localized incentives and the methodology used in determining the incentives.⁶ The caption for this proceeding is updated to avoid confusion and appropriately reflect the newly broadened scope of this proceeding.

1. Procedural Background

On October 2, 2014, the California Public Utilities Commission (Commission) approved the Order Instituting this Rulemaking (OIR), which sought to consider the development and adoption of a regulatory framework to provide policy consistency for the direction and review of demand-side resource programs. According to the OIR, the framework is envisioned to be a unified mechanism to authorize and direct the Commission-regulated electric and gas utilities to achieve demand response reduction and load shaping using demand-side management resources.

A Ruling and Scoping Memo was issued on January 5, 2015, noting that the scope of issues may be broadened following workshops. The January 5, 2015 Scoping Memo determined that the proceeding would have two phases with Phase I reviewing past activities and developing guiding principles, priorities, objectives, and a goal for future integrated demand-side management activities. Phase I would also determine whether the breadth of future activities would be narrow, i.e., strictly focused on integrated demand-side management, or broader.

Following several workshops and the filing of party comments, the Commission adopted Decision (D.) 15-09-022, which, among other things, broadened the scope of Phase I of this proceeding to consider a resource

⁵ As directed in D.15-09-022, Ordering Paragraph 2.

⁶ As directed in D.15-09-022, Ordering Paragraph 5.

framework based on the entire energy production and delivery system from the customer side to the utility side. In addition, the Decision stated that the proceeding would also determine how best to source the distributed energy resources needed by the utilities based on determinations made in R. 14-08-013 et al., in terms of the value of distributed energy resources. Lastly, D.15-09-022 concluded that this proceeding should consider whether to adopt localized incentives and what the methodology should be.

Relatedly, the Commission held a workshop in R.14-08-013 et al. where staff presented a roadmap for the procedural outline of the proceeding. Participants discussed the interaction between the two proceedings in order to clarify the scope of each proceeding and ensure the two are effectively coordinated. Parties were provided an opportunity to comment on the roadmap and on the division of issues with this proceeding.

A Ruling and Scoping Memo in R.14-08-013 et al. was issued on January 27, 2016. In that Scoping Memo, the assigned Commissioner established three tracks to focus on: methodological issues, demonstration and pilot projects, and policy issues.

2. Distinguishing the Roles of R.14-10-003 and R.14-08-013

Public Utilities Code Section 769 directed the Commission to identify optimal locations for the deployment of distributed energy resources. The optimal locations are to be identified by evaluating the locational benefits and costs of distributed energy resources. As part of this effort, the Commission should ensure the deployment of cost-effective distributed energy resources that satisfy distribution planning objectives. Simultaneously, the Commission should also effectively ensure the coordination of existing programs, incentives, and tariffs to maximize locational benefits and minimize incremental cost. These

should culminate in the development of a system that integrates cost-effective distributed energy resources, if doing so yields net benefits to ratepayers.

Early in this proceeding, the interplay between this proceeding and R.14-08-013 was recognized. In D.15-09-022, the Commission explained that R.14-10-003 and R.14-08-013 will work together to create an end-to-end framework from the customer side to the utility side of the grid, with R.14-10-003 implementing Public Utilities Code Sections 769(b)(2) and 769(b)(3) as part of that framework. The Commission concluded that the remainder of Phase I of this proceeding should support the development of the end-to-end framework to consider relevant valuation methodologies and sourcing mechanisms, as described below.

As directed by D.15-09-022, we have coordinated with R.14-08-013 et al. in detailing the expanded scope of this proceeding as it relates to the coordination and delineation between the two proceedings. Parties were invited to comment on the coordination between the two proceedings and, in particular, to indicate the division of labor. Several parties addressed the overlap, the division of labor and coordination aspects.⁷ In particular, three parties commented on the coordination between the two proceedings. Environmental Defense Fund recommends that R.14-10-003 should develop utility incentives for distributed energy resources that can be tested in the demonstration projects anticipated in R.14-08-013. The Office of Ratepayer Advocates recommends that

⁷ Parties that presented comments relevant to the integration of distributed energy resources are Bloom Energy, the California Independent System Operator, Center for Sustainable Energy, Environmental Defense Fund, Interstate Renewable Energy Council, Inc., Natural Resources Defense Council, Office of Ratepayer Advocates, Pacific Gas and Electric Company and San Diego Gas & Electric Company. See comments filed in R.14-08-013 on November 20, 2016.

the cost-effectiveness methodology to be developed in R.14-10-003 should apply to distributed energy resource sourcing of non-location-specific services while the locational net benefit analysis should apply to location-specific deferrals. San Diego Gas & Electric Company agrees with the proposed plan to evaluate the cost-effectiveness of distributed energy resources in R.14-10-003 using inputs from methodologies developed in the R.14-08-013 proceeding.

A January 27, 2016 Assigned Commissioner and Administrative Law Judge Ruling and Scoping Memo for R.14-08-013 established three concurrent tracks to address the issues necessary to meet the requirements of Public Utilities Code Section 769. Track 1, Methodological Issues, will handle issues related to the creation of an integration capacity analysis and a locational net benefits analysis, and the authorization for demonstration projects⁸ associated with researching and improving these two methodologies. Track 2, Demonstration and Pilot Projects, will focus on the design and authorization for three demonstration projects as follows: C – demonstrate distributed energy resources locational benefits; D – demonstrate distribution operations and high penetrations of distributed energy resources, and E – demonstrate a microgrid where distributed energy resources serve a significant portion of customer load and reliability services and use a management system for controlling the resources. Finally, Track 3, Policy Issues, will address the numerous policy concerns raised by parties.

To summarize, R.14-08-013 will develop methodologies to determine how distributed energy resources can meet system needs as an alternative to

⁸ Referred to as demonstration projects A and B.

traditional investments, provide justification for meeting those needs with distributed energy resources instead of conventional alternatives, define the services that may be bought and sold to meet the needs, and produce maps that indicate where distributed energy resources should be sourced.

3. Broadened Scope of Issues

As a result of the issuance of D.15-09-022 and the Scoping Memo for R.14-08-013, we see four issues in the scope of Phase I of this proceeding:

1. Development of a competitive solicitation framework targeting the reliability needs within the areas identified by the Integration Capacity Analysis and the Locational Net Benefits Analysis performed in R.14-08-013.

This would include the elements listed below. In order to facilitate the development of these elements, a) a workshop will be held to discuss the lessons learned in prior solicitation experiences;⁹ and b) a working group will be established to consider solutions to develop a competitive solicitation framework and its elements.

- a. Defining the services to be bought and sold within the identified areas. The definitions should include details on the expected reliability and other performance requirements, as well as any constraints, not previously determined in R.14-08-013, on how distributed energy resources can meet the identified need.
- b. Development of methodologies to count services provided and ensure no duplication with procurement in other proceedings, i.e., ensure these resources are incremental to existing efforts and avoid double-counting of resources.

⁹ Examples of prior experiences include the Southern California Edison Company Preferred Resource Pilot and Local Capacity Resource Request for Offer, as well as the Demand Response Auction Mechanism Pilot in R.13-09-011.

- c. Development of solicitation rules or principles such as constraints on procurement, e.g., floors and ceilings on volume procured, price paid, etc.
 - d. Development of solicitation oversight needs, e.g., procurement plans, procurement review groups, etc.
 - e. Development of solicitation evaluation methodology to include the valuation of any deferred distribution system upgrade.
 - f. Development of solicitation pro forma contract.
2. Continued development of technology-neutral cost-effectiveness methods and protocols, including but not limited to:
 - a. Refinement and enhancement of valuation or cost-effectiveness methods, including locational variation, established in this proceeding for the consistent use in resource-specific proceedings.
 - b. Informing or determining a preferred approach to bid evaluation within the competitive solicitation framework.
 3. Leveraging the work being performed through the Distribution Resource Plans Demonstration Projects where practical for the purpose of advancing the development of a competitive solicitation framework for distributed energy resources.
 - a. Embedding elements developed for the competitive solicitation framework as described above.
 4. Utility role, business models, and financial interests with respect to distributed energy resources deployment.

We anticipate the issuance of a Ruling in the near future, potentially jointly in this proceeding and in R.14-08-013, to begin discussion of any necessary changes to the current framework of financial incentives for the investor-owned utilities. The goal of any such changes would be to remove any financial disincentives that the utilities may face in considering the deployment of distributed energy resources in lieu of potential utility capital investments. The future role of

the investor-owned utility and/or utility affiliates in the ownership of distributed energy resources may also be addressed.

4. Schedule for Next Steps

As discussed in D.15-09-022, we will continue to use workshops and party comments to develop the record for this proceeding. We have previously determined that evidentiary hearings are not necessary. Thus, the following schedule is established for the next steps of Phase I of this proceeding:

Activity	Estimated Date
Scoping Memo	February 2016
Ruling on February 2, 2016 Working Group Report	February 29, 2016
Comments/Replies to February 2, 2016 Ruling Filed	March 14 and 21, 2016
Workshop on Lessons Learned from Prior Solicitation Experience Commission Auditorium 505 Van Ness Avenue San Francisco, 94102	March 28, 2016
Ruling Establishing a Competitive Solicitation Framework Working Group	March 2016
Joint Workshop with R.14-08-003 RE: Demonstration Projects C through F	April 2016
Competitive Solicitation Working Group Report Filed	August 1, 2016
Comments to Working Group Report Filed	August 22, 2016

If there are any workshops held in this proceeding, notices of such workshops will be posted on the Commission’s Daily Calendar to inform the

public that a decision-maker or an advisor may be present at those meetings or workshops. Parties shall check the Daily Calendar regularly for such notices.

The assigned Commissioner or Administrative Law Judge may adjust this schedule as necessary for efficient management of this proceeding. The Commission's intention is to complete Phase I of this proceeding within 18 months from the date of this scoping memo.

5. Intervenor Compensation

Pub. Util. Code § 1804(a)(1) requires that a party who intends to seek an award of compensation must file and serve a notice of intent to claim compensation within 30 days after the prehearing conference. However, because this Scoping Memo broadens the original scope of the proceeding and no prehearing conference is anticipated, parties intending to seek an award of compensation, and have not already done so in this proceeding, must file and serve a Notice of Intent to claim compensation within fourteen days from the issuance of this Scoping Memo. Parties filing the Notice of Intent in response to this revised Scoping Memo will only be eligible for compensation of time and effort going forward.

6. Categorization, *Ex Parte* Communications and Presiding Officer

As previously determined, Phase I of this proceeding is categorized as quasi-legislative and Phase II as ratesetting. Hence, as set forth in Commission Rules of Practice and Procedure, Rule 8.3, *ex parte* communications are permitted without restriction in Phase I, but in Phase II *ex parte communications* are restricted and subject to the reporting requirements set forth in Rule 8.3(c).

Pursuant to Rule 13.2, in a quasi-legislative proceeding, the assigned Commissioner is the Presiding Officer. For Phase II, a ratesetting proceeding, the assigned Administrative Law Judge will be the Presiding Officer.

IT IS RULED that the items addressed in the body of this Ruling are adopted. In particular:

1. The issues for this proceeding have been broadened from the original scope and now are as stated in the section of this Ruling entitled, "Broadened Scope of Issues."
2. The schedule provided in the section of this Ruling entitled, "Schedule for Next Steps" is adopted. The Assigned Commissioner or Administrative Law Judge may adjust this schedule as necessary for efficient management of this proceeding.
3. Parties who intend to seek an award of compensation, and have not done so yet, must file and serve a Notice of Intent to claim compensation within fourteen days from the issuance of this Scoping Memo. Parties filing the Notice of Intent to claim compensation in response to this Scoping Memo will be eligible for compensation of time and effort going forward only.

Dated February 26, 2016 at San Francisco, California.

/s/ MICHEL PETER FLORIO

Michel Peter Florio
Assigned Commissioner

/s/ KELLY A. HYMES

Kelly A. Hymes
Administrative Law Judge