BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates.	Rulemaking 22-07-005 (Filed July 14, 2022)

COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE ASSIGNED COMMISSIONER'S PHASE 1 SCOPING MEMO AND RULING

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In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the California Energy Storage Alliance ("CESA") hereby submits these comments on the *Assigned Commissioner's Phase 1 Scoping Memo and Ruling* ("Scoping Memo"), issued by President Alice Reynolds on November 2, 2022.

I. INTRODUCTION.

Overall, CESA is glad to see the Commission launch Phase 1 of this Rulemaking to Advance Demand Flexibility through Rates. While the scope and schedule of this proceeding is ambitious, CESA believes that unlocking elements such as more dynamic rates, compensation for exports, and streamlining data sharing and communication between the load-serving entities ("LSE"), distribution utilities, the California Independent System Operator ("CAISO"), third-parties, and customers can help the state leverage behind-the-meter ("BTM") distributed energy resources ("DER") more effectively.

As this Rulemaking begins, it is important to set appropriate guiding principles to narrow stakeholder focus and align on the goals of this proceeding and the Commission generally. As highlighted in the Energy Division whitepaper "Advanced Strategies for Demand Flexibility Management and Customer DER Compensation," traditional rates and approaches to ratemaking are misaligned with today's grid needs and customer capabilities. As California works to advance

our goals of reducing statewide greenhouse gas emissions while ensuring electric reliability and affordability, setting new ratemaking principles is key. Therefore, CESA's comments on the Scoping Memo and Ruling are focused on the Energy Division Staff Proposals for the Electric Rate Design Principles and the Demand Flexibility Design Principles, and we recommend the following:

- Definitions of cost-shifting and cross-subsidies should be clarified.
- The Demand Flexibility Design Principles should be named the Demand Flexibility Tariff Principles.

II. <u>DEFINITIONS OF COST-SHIFTING AND CROSS-SUBSIDIES SHOULD BE CLARIFIED</u>.

Overall, CESA largely supports the Staff Proposal for Rate Design Principles and the intent behind each principle. However, following the workshop on these principles, CESA recommends that the Commission clarify the definitions of two key terms used in the principles: cost shift and cross-subsidy. Both of these terms surround the scenarios where some ratepayers pay less than their allocated costs, as determined by cost causation principles, while others pay more. Rates can never be designed perfectly, and having individual customers pay more or less than their allocated costs is inevitable to some degree due to variations in electric usage and how costs are incurred by utilities. At the same time, there are instances where customer classes or groups of customers with similar characteristics systematically pay more or less than there allocated costs due to ratemaking decisions that intentionally or unintentionally create these outcomes.

Based on discussion at the workshop, CESA interprets the term "cost shift" used in this context to mean an *unintended* shifting of costs between different customer groups. This can occur when rates include mechanisms where customers can change their electric consumption and behavior in unforeseen ways to avoid paying for costs they incur on the system, placing upward

pressure on rates so that costs can be recovered from other customers that are unable to avoid these rates. These scenarios can emerge when the Commission does not consider how rates would elicit customer behavior, creating an *unintended cost shift*.

Importantly, changes in cost allocation among customers or customer classes due to changing cost causation among customers is *not* a cost shift. The changing nature of California's electric grid and customer electric patterns may mean that the Commission needs to update the allocation of costs to reflect changes in how customers are contributing to the costs of the grid. In a hypothetical example, residential customer purchases of light-duty electric vehicles can increase residential electric consumption. Therefore, new investments in transmission or distribution infrastructure could be disproportionately caused by residential customers. While traditionally this infrastructure may have been allocated 50% to residential customers and 50% to non-residential customers, updated cost-causation may mean that the costs of new investments are allocated 60% to residential customers and 40% to non-residential customers. This does *not* represent a cost shift from non-residential to residential customers but instead an updated allocation of costs based on cost causation.

On the other hand, there are many scenarios in which the Commission determines it appropriate to have groups of customers pay more or less than the costs they incur on the system. For example, the California Alternate Rates for Energy ("CARE") program for low-income customers provides discounted rates that amount to a 30-35% discount on a customer's electric bill. The costs of this discount are recovered from all customers through the Public Purpose Program ("PPP") charge causing non-participating customers to pay more to subsidize participating customers. This has been done intentionally by the Commission to ensure that low-income customers can meet their electric needs at an affordable cost in order to further economic

and social equity in California. This is an example of an *intentional cross-subsidy* that has been created in pursuit of a state goal.

CESA agrees that unintended cost shifts should be avoided and that the Commission should do its best to consider how rate design could impact how different customers contribute to their allocated costs. In order to clarify this intention, CESA recommends the following modification to Rate Design Principle 4:

> Rates should be based on cost-causation principles and avoid unintended cost shifts whereby customers unintentionally pay costs caused by other customers.

III. THE DEMAND FLEXIBILITY DESIGN PRINCIPLES SHOULD BE NAMED THE DEMAND FLEXIBILITY TARIFF PRINCIPLES.

CESA appreciates the Commission considering how to advance demand flexibility through electric rates. In comments on the Order Instituting Rulemaking ("OIR"), CESA commented on how demand flexibility could be enabled through other strategies outside of retail rates, including wholesale market integration, customer programs, and strategies for BTM aggregations.[1] However, given that this proceeding is focused on rates and tariffs, the Demand Flexibility Design Principles are designed to, "guide the design of *demand flexibility tariffs*, as well as the systems & processes needed to support the calculation of and providing customer access to *demand flexibility price signals* (*emphasis added*)."[2] The principles themselves are focused on shaping these tariffs to align with the goals of this proceeding and the Commission more broadly. To this end, the principles should be called Demand Flexibility Tariff Design Principles, to acknowledge that they

[1] CESA OIR Comments at 10-11.

[2] Scoping Memo, CPUC Rate Design & Demand Flexibility Principles Staff Proposal Attachment at 5.

are focused on a demand flexibility rate tariff and not on other means to advance demand flexibility.

Overall, CESA supports the principles as laid out to guide the development of a dynamic tariff. We also support the goal of providing accurate price signals that vary dynamically to reflect changing electric system conditions. Principle 2 reflects this intention, stating that "Dynamic prices should accurately integrate the value of energy, generation capacity, distribution capacity, and transmission capacity (to the extent feasible) based on *real-time* grid conditions (*emphasis added*)."[3] However, trying to integrate real-time pricing into as many elements of dynamic rates as possible might not be the best way to advance demand flexibility. Even if it is technically feasible to incorporate elements such as real-time wholesale market prices into dynamic rates, it might be that a 15- or 5-minute real-time price signal, while accurate, does not provide customers enough time to respond to these signals, and instead a day-ahead wholesale price signal would be better at encouraging customer load shifting, while still providing very accurate price signals. In general, CESA believes that the record of this proceeding should determine the best time-horizon to provide price signals to customers, and that the Commission should not determine at this time that real-time price signals are automatically the best signals or the ones that should be adopted. Instead, Principle 2 should be modified to allow for more flexibility:

> 2. Dynamic prices should accurately integrate the value of energy, generation capacity, distribution capacity, and transmission capacity (to the extent feasible) based on ~~real-time~~ current grid conditions.

[3] Ibid.

This language captures the intent of the Commission to provide up-to-date information and price signals to customers, while allowing for consideration of optimal time scales and cost-benefit tradeoffs.

IV. CONCLUSION.

CESA appreciates the opportunity to submit these comments and looks forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,

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