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Energy Division Staff
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SAN DIEGO GAS & ELECTRIC COMPANY'S COMMENTS ON THE CPUC WORKSHOP ADDRESSING ADVANCED DISTRIBUTED ENERGY RESOURCES AND DEMAND FLEXIBILITY MANAGEMENT

I. Introduction

The California Public Utility Commission's (CPUC) Advanced Distributed Energy Resources (DER) and Demand Flexibility Management Workshop convened on May 25, 2021 to discuss ideas for advanced DER and flexible load management, leveraging new system-wide retail rate reforms, and load modifying demand response proposals. In the exploratory workshop, CPUC Energy Division (ED) demand response and retail rates staff jointly previewed a proposal for a comprehensive roadmap to facilitate widespread flexible demand management while minimizing the cost of service. Stakeholders were invited to submit informal written comments providing feedback for review and consideration by Energy Division staff as they continue to develop their proposal. San Diego Gas & Electric Company (SDG&E) respectfully submits these comments on the workshop discussion and Energy Division's proposal.

II. Energy Division Staff Proposed Roadmap for DER & Flexible Management

POLICY ISSUES:

SDG&E appreciates the thoughtful and forwarding-looking staff proposal as presented by Energy Division staff on managing flexible loads and integrating DERs into the grid. SDG&E agrees that there are problems to solve and issues to address to fully integrate more DERs and to support a more flexible, resilient electric grid. Overall, SDG&E is supportive of the Commission's efforts to offer more granular price signals for customers, as long as the benefits have been proven to outweigh the costs and there are no unfair cost shifts to nonparticipating customers. As evidenced in its history of providing more granular price signals and current rate offerings, SDG&E supports dynamic pricing and recognizes its importance in providing incentives for customers to shift demand from peak to non-peak periods. If dynamic rates are designed correctly, this more granular pricing has the potential to help reduce peak load during certain times of the day, certain days of the year, and periods when critical load reduction is needed. Currently, SDG&E offers several dynamic rate schedules, including critical peak pricing (CPP) rates and Schedule VGI – Electric Vehicle Grid Integration Pilot Program (VGI). These rate schedules send more granular price signals that can help reduce peak demand through "event-based pricing" that provides an economic incentive for customers to move or reduce their consumption during those critical hours or days.

Additionally, SDG&E appreciates the ED's recognition that high volumetric (kWh) energy electric rates can be a barrier to electrification for many customers, and that the Commission should consider methods of fixed cost recovery other than through volumetric energy rates. However, SDG&E recommends against addressing fixed cost recovery in a statewide rulemaking. Each investor-owned utility (IOU) has a unique cost structure and recovers costs differently. While needed and long overdue, changes to fixed cost recovery would be better addressed in each IOU's respective rate design proceedings. As such, the remainder of SDG&E's comments focus on the commodity rate component. Below, SDG&E offers additional policy objectives that are critical to any discussion of more granular pricing.

1. Customer interest: Extensive integration of DERs for a more flexible grid will require better understanding and consideration of customers' interest, engagement and preferences. Currently, there is little information demonstrating customer interest in and ability to participate in a flexible demand management program or rate, as well as the associated cost and benefits of doing so. Much of the discussion in the workshop was predicated upon the assumption that customers care about the issues, or sees themselves as part of the solution, or more basely, that they can benefit personally from engagement on these efforts.

However, customer interest, understanding, abilities, as well as participant/non-participant costs and benefits must actually be identified and established first, before proceeding down a road towards fully integrated DERs. Until then, SDG&E surmises that any solutions to meet the opportunities identified in the ED's roadmap will necessarily need to be limited in scope and cost, similar to a pilot, and include simple (likely, existing) rate design, understandable concepts, and a robust education budget. The Commission should consider SDG&E's experience in implementing TOU rates for smaller usage customers (small commercial and residential customers) when determining the level of Marketing, Education, and Outreach (ME&O) necessary for customers to be able to understand and respond to a significantly more complex Real Time Pricing (RTP) rate. The Commission should also be mindful of the timing of current statewide efforts regarding transitions to TOU rates. While SDG&E has already completed its Residential Mass TOU Default, the other IOUs are still going through the process.

The arguments raised to address customer interest and understanding is often simply to automate everything (such as ED proposes on slide 22 of the presentation), but the assumption that this is the solution for all these issues is presumptive and not proven. Customers still need to see the benefit in doing so, and generally want some control. SDG&E agrees that for customers to respond to more granular price signals as envisioned in the workshop, a certain level of automation will be necessary. However, automation raises equity and cost shifting concerns: the technologies required for automation will only be adopted by those who can afford the required hardware and software. The ED's presentation overall does not provide any detail or proposals for how to address these equity and cost shifting concerns. These concerns must be addressed to achieve the wide-spread adoption the ED seeks.

2. Third parties: The role of third parties, and in particular, customer choice aggregation and direct access offerings by third parties should be included in any discussion of the further integration of DERs for more flexible load management. SDG&E does not have the ability to unilaterally propose commodity rates for customers in its service territory. SDG&E continues to work closely and collaboratively with the CCAs and expects its territory's largest CCA to date to launch later this year, which will serve approximately 60% of SDG&E's current load. The CPUC cannot currently dictate what rates third party load serving entities (LSEs) must offer, and therefore cannot require CCAs or DA providers to provide an RTP (or any particular) rate structure. In order for a CCA to offer an RTP rate, it would have to choose to create it – and providing such a rate would require a significant investment of time and capital, such as rate design, development of pricing, ME&O, and the critical, complicated platform to both receive price signals from the wholesale market and communicate those price signals to customers. Given the expense and complications involved in offering more granular price signals, it is unclear whether CCAs will choose to create these offerings when they are not required to do so.

The opportunity for accrued system savings and ED's proposed solution must be viewed through that lens, i.e., how effective will this offering be if it is only viable for less than 40% of SDG&E's load? The CPUC must weigh the benefits and costs of and what is worth doing for less than half of SDG&E's customers.

3. Costs: Closely associated with the role of CCAs discussed above and a shrinking bundled customer base is the question of costs. When considering significant changes to commodity rate offerings, the Commission must consider cost impacts to bundled customers' rates.

The process of addressing DER and flexible management policy objectives must also recognize that a "one-size-fits-all" approach may also not be viable. The ED stated on slide 5 of their presentation, that the IRP analysis suggests "DR [demand response] can be a cost-effective alternative for renewables integration resources." SDG&E cautions against applying this statement as fact to all IOUs statewide. There are large territory differences within California between the investor-owned utilities (IOUs), and the cost-effectiveness of various DR programs across IOUs greatly varies. What may be cost-effective in one territory may not be in another because of customer composition, as experienced today by SDG&E[1]. Slide 5 further states that "But highly scalable, low-cost deployment strategies are needed to realize that potential." SDG&E agrees but would like to highlight the fact that scalable usually means "mass" and that would need to rely on a robust education component, which considerably raises the costs. If such participation does not include the CCAs' customers, then for SDG&E, 'scalable' or mass participation may not be possible, even if it is desirable.

When considering the possible adoption of a new RTP rate of any kind, the Commission should weigh the costs associated with implementing an RTP rate against any potential benefits. There are different ways to design and implement RTP (dynamic) pricing rates, and some designs may lead to unreasonable rate and bill impacts for all customers if the costs and benefits are not weighed appropriately. Given the recent COVID-19 pandemic, SDG&E believes that an affordability assessment of a new rate is especially important, as Californians are experiencing additional financial burdens and uncertainty. The successful implementation of a new RTP rate would require that the costs to ratepayers to design, implement and administer are minimized, and the economic benefits to ratepayers are maximized.

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[1] SDG&E's cost effectiveness scores are lower for the same programs offered by PG&E and SCE most often because it costs are comparable to launch and manage such DR programs, but SDG&E's territory lacks a large industrial customer base from which to draw for its commercial DR programs.

SDG&E strongly recommends that the Commission take a full inventory and gain a comprehensive understanding of the costs to develop, implement, and evaluate a rate offering like this, both on a small scale (e.g. a pilot) and at scale. The results of this inventory should be included in any final Staff Proposal from ED to ensure that parties have the same understanding of costs to develop and implement. Before it was decided how residential customers would be defaulted to time-of-use (TOU) pricing statewide, the Commission required multiple pilots, both opt-in and default structure.

COMMENTS ON IMPLEMENTATION OF THE ROADMAP:

Below, SDG&E provides additional comments regarding implementation of ED's proposed roadmap for DERs and flexible grid management.

CAISO integration is not required: At slide 10 of the presentation, the ED suggests that market integration poses serious challenges for demand side resources and that such integration should not be required to try to create more flexible resources with DERs. SDG&E strongly agrees with this proposal for the reasons cited by ED. SDG&E is happy to see this discussion unfold in workshops so that more stakeholders become aware of the issues.

Statewide, web-based price portal: SDG&E does not oppose such a portal, discussed in slides 20 and 21, which is in high-level concept only at this point. SDG&E would like to consider this more fully with more detail. However, at a high level, SDG&E would surmise that such a portal could be built and maintained by a state agency and might be best managed that way, via a third party. This would support neutrality and the standardization the ED is seeking to achieve. Using a proxy price is much more desirable given current circumstances than an actual real time price (RTP). This is due to the fact that a true RTP would require more granular interval data than any of the IOUs currently have the capability to collect and settle. True real time pricing is complex as well as expensive to implement.

Prices tied to wholesale markets for retail: The ED appears to be proposing tying prices to wholesale market prices, among other indexes, but it is not entirely clear. However, if this is the case, then SDG&E cautions that while prices tied to markets are generally effective in achieving an efficient balance of supply and demand during most conditions, they are much less effective in extreme scarcity conditions and can create uncertainty and disruption in the aftermath of such events. The Commission should consider what guard rails or protections are appropriate for extreme scarcity conditions. The state of Texas recently adopted new laws to put such protections in place, after the extreme weather event (cold weather causing pipes to break) last winter.[2] Residential prices can no longer be tied to wholesale power plans in Texas. While there are market differences in Texas from California, we need to move thoughtfully given the recent events.

III. Conclusion

SDG&E appreciates the opportunity to provide these comments for Energy Division consideration and looks forward to continued discussions regarding advanced DERs and flexible demand management.

[2] See: https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/052821-texas-governor-signs-bill-banning-residential-wholesale-indexed-power-plans