

June 28, 2013

**VIA E-MAIL DOCKET@ENERGY.
CA.GOV**California Energy Commission
Dockets Office, MS-4
Re: Docket No. 13-IEP-1
1516 Ninth Street
Sacramento, CA 95814-5512

California Energy Commission

DOCKETED**13-IEP-1****TN # 71475****JUNE 28 2013**

Re: 2013 Integrated Energy Policy Report Update: Response of Pacific Gas and Electric Company to Petitioners' Request for the California Energy Commission to Perform a Societal Benefit Analysis of Net Energy Metering

I. INTRODUCTION

On June 5, the Asian Pacific Environmental Network, Brightline Defense Project, California Center for Sustainable Energy, California Environmental Justice Alliance, California Solar Energy Industries Association (CalSEIA), Coalition for Clean Air, Distributed Energy Consumer Advocates, Environment California Research and Policy Center, Environmental Defense Fund, Interstate Renewable Energy Council, Inc., Local Energy Aggregation Network, Presente.org, Sierra Club, and Vote Solar Initiative (collectively, the "Petitioners") submitted a petition (Petition) to the California Energy Commission (CEC or Commission) requesting that it perform a societal cost-benefit study of the net energy metering (NEM) program to supplement the California Public Utility Commission's (CPUC) forthcoming updated ratepayer impact cost-effectiveness study. In particular, the Petitioners asked the CEC to:

- 1) Undertake a study of the societal costs and benefits of the NEM program to supplement the CPUC's forthcoming ratepayer impact cost-effectiveness evaluation of the NEM program, and prepare and submit a report on the requested CEC study to the legislature by December 1, 2013; and,
- 2) Establish an expedited process to incorporate consideration of the societal costs and benefits of the NEM program into the 2013 Integrated Energy Policy Report (IEPR).

Items which Petitioners ask the CEC to study and quantify include 1) increased employment and downstream economic effects; 2) market price impacts of NEM resources; 3) grid security benefits; 4) leveraging private capital and federal tax benefits; 5) enabling customers to increase discretionary spending; 6) increased tax base for state and local governments; 7) avoided morbidity and mortality associated with fossil fuel generation; 8) increased welfare and productivity; 9) reduced greenhouse gas (GHG) emissions/climate change impacts; 10) avoided air pollution costs; 11) 100% renewable attribute value; 12) avoided environmental, safety, and economic costs; 13) reduced water consumption; 14) improved residential and recreational visibility benefits; and 15)

avoided land use impacts. No method of quantifying the value of these claimed benefits or establishing a causal link to the energy industry is offered in the Petition.

In accordance with the timeline established by the CEC for responding to this Petition, PG&E provides its response. In summary, PG&E opposes the Petitioners' request for numerous procedural and policy reasons. In particular, the CPUC has already considered many of the same issues and claims, and concluded that many of these claimed benefits should not be included in the analysis either because benefits/costs do not exist or cannot be quantified at this time, or because they are already included elsewhere (e.g., in the avoided energy and capacity values).

Moreover, as explained in detail below, a societal benefit analysis would not answer any of the key NEM questions, including whether there are ways to modify the existing NEM program so that fewer costs are transferred to non-participating customers while permitting a vibrant solar market -- already the largest in the entire United States -- to continue to thrive and prosper.

However, should the CEC decide to consider the petition, the scope of the analysis should not be limited to the net energy metering program. Rather, the analysis should look at the societal benefits from a broader range of resources, in order to determine whether NEM-eligible projects are the most cost-effective means of realizing these claimed benefits. Furthermore, should the CEC decide to consider the petition, it should also consider societal costs (e.g., lost utility user tax revenues). Finally, should the CEC decide to consider the petition, it should evaluate which parties actually receive the claimed benefits, in order to determine the most appropriate support mechanisms (e.g., taxes).

II. THE PETITIONERS' REQUEST IS NOT TIMELY AND SHOULD BE REJECTED

On January 9, 2013, the CEC issued the draft Scoping Memo for the 2013 IEPR, identifying key areas for discussion within the proceeding. In addition to natural gas, transportation, climate change, and research and development issues, other significant policy issues include:

- 1) Energy Efficiency: implementation of Assembly Bill 758 to increase the efficiency of California's existing buildings, along with a definition of and pathway to net zero energy homes;
- 2) Demand Response: an analysis of technical, economic, and market barriers to the use of demand response, which can reduce peak energy demand and support the integration of renewable resources;
- 3) Renewables: an analysis of the impediments that limit procurement of biomethane in California and potential solutions, along with a status report on bioenergy development;
- 4) Electricity: Multi-faceted and includes:
 - Statewide and regional electricity demand forecasts and the factors leading to projected demand growth, along with California's need for new electricity infrastructure, including consideration of climate change impacts and energy contingency planning

- Initiation of an evaluation of electricity system needs in 2030 to provide a foundation for potential interim 2030 RPS targets as California moves toward its 2050 greenhouse gas emission reduction goals;
- Updated estimates of new generation costs for various technologies
- Strategic Transmission Investment Plan

5) Nuclear Power Plants: among other issues, assess the reliability implications for California of outages at the nuclear plants or their failure to be relicensed.

Comments on the draft Scoping Memo were requested on January 24, 2013. On March 7, 2013, the CEC issued its final Scoping Memo indicating issues that were within the scope of the 2013 IEPR. The topics were largely unchanged from the draft Scoping Memo, although some topics were rearranged into different categories. Given the scope of the IEPR has been set since March, it is unfair to parties to suddenly expand the scope of this proceeding, particularly to consider a topic that is far-ranging in scope and would be very complex. In particular, as explained below, solar advocates have already asked the CPUC to incorporate these benefits into a cost-benefit analysis, and the CPUC declined to include most of them, finding that either these benefits do not exist or cannot be quantified at this time, or because they are already included elsewhere (e.g., in the avoided energy and capacity values). The Petitioners were aware of this when the CPUC issued the NEM Benefit-Cost Scoping Memo on December 19, 2012, and were in a position to raise their current request to the CEC in comments on the draft Scoping Memo. They did not. If the CEC wanted to study these matters, significant time would be needed to resolve controversies, develop study parameters, perform analysis, seek stakeholder feedback on the analysis, and develop a final report. It is highly unlikely that any credible analysis could be done in time to inform the current IEPR.

With the draft IEPR to be issued in August, efforts to insert another sizeable analytical body of work at this late stage of the proceeding could derail consideration of other significant issues the CEC is considering in this IEPR (e.g., the impact of the San Onofre Nuclear Generating Station's retirement on electricity infrastructure needs in Southern California, 2030 electricity system analysis, and energy efficiency upgrades for existing buildings). PG&E respectfully requests that the CEC maintain its current focus in the 2013 IEPR and decline to add significant work scope at this late date.

III. THE PETITIONERS' REQUESTED STUDY IS NOT REQUIRED BY LEGISLATION, WOULD CONTRADICT CPUC EFFORTS, AND WOULD NOT ANSWER THE KEY QUESTIONS

As noted in the Petition, last year the CPUC and the legislature concluded that a study must be conducted regarding NEM. The CPUC has selected the consulting firm Energy + Environmental Economics (E3) to complete this study, under the detailed supervision of the CPUC. The Petition also noted that in late 2012 stakeholders commented on the proposed methodology that will be used for the forthcoming study. Petitioners understand that E3's study is well underway and results will be released in advance of the October 1 deadline in the statute.

Petitioners have already taken advantage of several opportunities to argue for a more expanded analytical NEM study scope before the CPUC. Solar Energy Industries Association (SEIA), Vote Solar, CalSEIA, and the Sierra Club filed comments on November 5, 2012, urging the CPUC to make a variety of changes to the scope of the study, including use of the Crossborder NEM study described in the Petition. The Crossborder study uses assumptions and inputs that are entirely different from those used in the CPUC study. (Indeed, Crossborder has long claimed solar customers are subsidizing other customers, and two different CPUC studies have expressly rejected the Crossborder methodology and its conclusions). Similarly, the Interstate Renewable Energy Council, Inc. filed comments on November 5, 2012, complaining that the E3 study should consider more than ratepayer impacts. Distributed Energy Consumer Advocates also filed comments urging consideration of some of the items suggested here.¹

This is not the first time distributed generation advocates have sought consideration of the claimed benefits of solar and other renewable generation described in the Petition. In 2005, the CPUC held extensive hearings on how to do a cost-benefit analysis of Distributed Generation (DG). Many DG advocates (including some of the same parties that filed the Petition here) asked the CPUC to consider and adopt a similar “waterfall” of benefits of DG. These included claimed benefits they called “Political, Locational, Environmental, Antidotal, Security, and Efficiency attributes of DG”, or the “PLEASE matrix.” These specifically included claimed health, job, tax, and other benefits claimed to be created by DG. The utilities explained that many of these claimed benefits should not be included in the analysis either because benefits/costs do not exist or cannot be quantified at this time, or because they are already included elsewhere (e.g., in the avoided energy and capacity values).

The CPUC agreed with the utilities, and rejected most of these claimed benefits in its cost-benefit decision issued in 2009, which is cited in the Petition, D.09-08-026. For example, that decision expressly rejected the claim that solar will reduce electricity market prices, finding that if adequate supplies have been secured under the long-term resource plans supervised by the CPUC, there will be no market price impacts when customers install solar.² Similarly, the CPUC included a small reliability adder already in use in the Standard Practice Manual, but rejected adding an additional value to the customer of self-generation as a back-up power supply, both because most DG units provide no such benefits (the units trip off-line when the grid trips) and because the CPUC has no method of quantifying such values.³ The CPUC also rejected claims of employment and tax benefit effects, stating that it had no method to evaluate whether DG installations would create more jobs than those displaced, as well as an inability to quantify the value of such claimed benefits.⁴

¹ All of these pleadings may be found on the CPUC web site concerning the E3 study at http://www.cpuc.ca.gov/PUC/energy/Solar/Comments_on_the_NEM_Phase_1_Methodology.htm.

² D.09-08-026 at pp. 36-37.

³ D.09-08-026, p. 39.

⁴ D.09-08-026, p. 40. PG&E explained at hearings that to the extent DG programs increase electric rates, this could have a negative impact on employment and taxes, as higher electric rates may drive jobs away from California. These factors are not used in any other Commission avoided cost calculations. Moreover, some of the jobs created by the solar industry are in China, not California, and it is not clear why California electric ratepayers who do not install solar should pay for jobs created abroad.

The CPUC decision also expressly rejected the so-called “PLEASE matrix.”⁵ This list of claimed benefits included “health benefits”, now described in the Petition as “avoided morbidity and mortality associated with fossil fuel generation.” As PG&E explained at the cost-benefit hearings at the CPUC, many aspects of air emissions by fossil fuel generators are regulated and therefore are already captured in the avoided cost methodology; to the extent they are not regulated, it is nearly impossible to come up with a consensus about the “morbidity impacts” of fossil fuel generation, or how to quantify the financial value of those impacts.

In the face of the CPUC’s determination, Petitioners now ask the Energy Commission to reject findings by the CPUC, both in its cost-benefit decision, as well as its study plan for the current E3 NEM study. The CPUC got these decisions right, and the CEC should decline to contradict the CPUC.

The CPUC’s study is required to fulfill the requirements of Assembly Bill (AB) 2514 (Bradford, 2012) and CPUC Decision (D.) 12-05-036. Both the legislation and decision specifically focus on the rate impact of NEM to non-participating customers. Therefore, the CPUC’s study, which focuses on the non-participating impact, appropriately excludes the broader societal benefits the Petitioners now seek to have the CEC study. However, in its cost-benefit decision, the CPUC addressed how to do a Societal Cost Study, which is addressed in the CPUC’s Standard Practice Manual.⁶ The approach to how to do a “Societal” test proposed by Petitioners, and the items to be included in it, is completely different from that now in use at the CPUC.

Should the CEC determine, however, that the Petition should be granted, it is unlikely to answer the key questions that need to be answered in evaluating net metering. No one, including PG&E, thinks customers are going to stop installing solar generating equipment, and PG&E remains committed to both customer-side and grid-side solar installations. What is important is to understand is whether there are alternatives available that would reduce the cost shift to non-participating customers, while also permitting solar to continue to grow and prosper. In particular, net metering customers are excused from paying many interconnection costs, non-bypassable and public purpose program charges, and standby charges. Their exports to the grid are valued at up to the full retail rate, which can now be as high as 53 cents per kWh.⁷ That is far above the value of that generation to non-participating customers. Customers with solar can nearly zero out their bill while continuing to make use of the utility system, meaning that the associated costs, along with other unavoidable costs (e.g., the CARE discount) are paid for by others. The key question is whether changes can and should be made to the existing NEM program rules that will reduce the cost shift imposed on customers without solar, without harming the further development of the solar industry. The Societal Study proposed by Petitioners will not provide any useful information on any of these key questions.

⁵ D.09-08-026, p. 29.

⁶ See discussion of Total Resource Cost Test and Societal Test at D.09-08-026 at pages 26-29, and Attachment A.

⁷ Current E-7 rates for deliveries in summer peak hours at over 200% of baseline.

IV. SOCIETAL BENEFITS – AND COSTS -- SHOULD BE PAID BY THOSE WHO ENJOY THEM

Should the CEC proceed with the proposed Societal Cost Test analysis on NEM, PG&E stresses the uses to which a Societal Cost Test could be put should be very carefully considered. There is a substantial risk that use of such a test could result in substantially increased rates to the majority of utility customers, and windfalls to a small group of parties selling products in the marketplace. At a minimum, the CEC should consider societal costs (e.g., foregone utility user tax revenues) and also evaluate other means of achieving the same claimed societal benefits, means which may well be significantly less costly than rooftop solar systems.

Furthermore, some of these societal and environmental value elements are already captured in the price paid for the renewable energy and, in particular, for renewable energy under the NEM tariff. Care must be taken to ensure that any societal benefits are not counted twice. Adding an externality value for plants that are not required would simply transfer additional wealth from non-participating customers to DG owners and would result in customers paying for non-mandated emission reductions. Finally, the costs associated with acquiring societal benefits should be viewed differently from costs and benefits that have some nexus with electric ratepayers. Even were there appropriately defined benefits, the beneficiaries might well include a larger universe than just the ratepayers of investor-owned utilities, which represents approximately 70 percent of the California market. Thus, emissions reductions that the state wants to encourage beyond mandated levels should be paid for by all beneficiaries through other means (e.g., taxes), not through higher rates on selected customers.

In closing, PG&E respectfully requests that the CEC decline to add this list of many issues to the 2013 IEPR. Please feel free to contact me with any questions you may have.

Sincerely,

/s/

Valerie J. Winn

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