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California Public Utilities Commission  
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## **RE: Comments on the En Banc on Energy Rates and Costs**

### **Introduction**

The Microgrid Resources Coalition (MRC) respectfully submits these comments on the Commission's En Banc on Energy Rates and Costs.

The MRC is a consortium of leading microgrid owners, operators, developers, suppliers, and investors formed to advance microgrids through advocacy for laws, regulations and tariffs that support their access to markets, compensate them for their services, and provide a level playing field for their deployment and operations. In pursuing this objective, the MRC intends to remain neutral as to the technology deployed in microgrids and the ownership of the assets that form a microgrid.

The MRC's members are actively engaged in developing microgrids in many regions of the United States including many in California. MRC members have also been operating sophisticated microgrids over an extended period of time (some for over 30 years). They are at the cutting edge of microgrid technology.

The mission of the MRC is to promote microgrids as energy resources by advocating for policy and regulatory reforms that recognize and appropriately value the services that microgrids offer, while assuring non-discriminatory access to the grid for various microgrid configurations and business models. We generally support disaggregated, fair pricing for well-defined services both from the grid to microgrids as well as from microgrids to the grid. We promote community-based resilience standards and support utilities that are working toward new business models that value resilient distributed resources. We work for the empowerment of energy customers and communities.

### **Takeaways from the White Paper and En Banc**

The Commission's report *Utility Costs and Affordability of the Grid of the Future* highlights the key findings for California's energy affordability challenges. The dramatic growth in rates can be largely attributed to increases in capital additions driven by rising investments in utility transmission and distribution. The utilities have also made major financial commitments to wildfire mitigation that are expected to contribute to more rate base growth in the near future.<sup>1</sup>

The En Banc on Energy Rates and Costs was an interesting stakeholder gathering and we appreciate the Commission convening a robust discussion on energy affordability in California. The MRC is concerned, however, with the disproportionate focus on distributed energy resources (DERs) and the presumptuous commentary throughout the En Banc that behind-the-meter (BTM) resources are a major cause of

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<sup>1</sup> Utility Costs and Affordability of the Grid of the Future pg. 7

California's energy rates increasing and imposing "cost shift" on ratepayers. The Commission's own report shows that this is not the case.

The return on rate base revenue requirement is increasing and significantly driving up costs for ratepayers. In the white paper, the Commission articulates the effect of the monopoly investor-owned utility business model on ratepayers:

*"The return on rate base revenue requirement reflects the opportunity for the IOU to earn a profit. Return on rate base may represent a return to shareholders paid by ratepayers; however, having a set rate of return ensures that IOUs are able to raise sufficient capital to make improvements to infrastructure and provide safe and reliable service to all customers. On the flip side, by having a set rate of return, IOUs are inherently incentivized to make investments to drive an increase in their rate base and therefore, their profitability."*<sup>2</sup>

The white paper identifies that the return on rate base for transmission and distribution infrastructure is increasing for all the utilities. A particularly concerning data point is PG&E's transmission return on rate base revenue requirement spiking in 2020, having roughly doubled since 2016.<sup>3</sup> Another concern with transmission costs is the significant cost overruns for "self-approved" transmission projects that were identified and completed outside of the CAISO transmission planning process. Again, PG&E makes for a concerning data point by exceeding 80% for self-approved projects.<sup>4</sup>

*"The annual capital additions projected for just 2020 and 2021 total \$5.3 billion, with approximately 60% being self-approved across all three IOUs"*.<sup>5</sup>

*"The end result is that there is no state or federal review on either the need or costs for these projects."*<sup>6</sup>

According to the Commission's own white paper, the utilities are building multi-million and multi-billion-dollar transmission projects without any review of actual need for these projects or approval on cost expenditures. CAISO has cancelled billions of dollars of transmission costs due to DERs in the past several years resulting in a savings for all ratepayers.<sup>7</sup> Unauthorized transmission projects going into rate base to be paid for by ratepayers should be a much greater cost shifting concern for the Commission and it should be quite skeptical of the perceived DER "cost shift" that the utilities complain about given these findings.

This is particularly unacceptable given the utilities' poor performance in maintaining their own grid infrastructure that has been the cause of several recent catastrophic wildfires and their continual provision of subpar customer service in the form of extensive Public Safety Power Shutoffs (PSPS). Not only is this unacceptable from a service standpoint, but it is also unacceptable for the Commission to be authorizing such exorbitant profits when so many Californians are suffering from the economic effects of a global pandemic and recession. The utilities should not be profiting off crises of their own making.

Since a major reason why California rates are so high and causing energy costs to become unaffordable for customers is utility capital additions and return on rate base, the Commission should seek to minimize capital investments by utilities to reduce shareholder returns so that ratepayers may have relief from these

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<sup>2</sup> White Paper pg. 24

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> White Paper pg. 39

<sup>6</sup> Id.

<sup>7</sup> <https://www.utilitydive.com/news/efficiency-ders-saving-26b-in-avoided-transmission-costs-caiso-says/519935/>

exorbitant costs that do not benefit them. Allowing this business model to continue without alteration would be reckless on the part of the regulator given the widespread concerns with energy affordability.

### **Considerations for an affordable, efficient, technologically advanced grid of the future**

As the white paper outlines, “while IOU capital investments will be necessary to meet California’s policy goals, balancing major investments in a cleaner, more efficient grid while sustaining affordable rates is more challenging as IOU rate base grows... this requires a deeper examination of the long-term savings and benefits to the system of a more efficient grid with greater penetration of BTM resources.”<sup>8</sup>

The MRC strongly agrees with this statement and implores the Commission to undertake a comprehensive study of how California can transition to a high penetration DER grid of the future with the assistance of reputable, unbiased experts.

*DERs, and microgrids in particular, installed by customers are the solution to California’s energy reliability and affordability challenges.*

DERs and advanced energy technologies like microgrids represent *dynamic* load, not departed load. Microgrids may have diverse generation and storage resources, including sophisticated controls and software to operate as an islanded control area. Microgrids can be flexibly dispatched to provide capacity and grid services to the utility when called upon, as well as intentionally island from the grid and shed load internally to reduce demand on the bulk power system. If the right price signals are put in place, microgrids can provide tremendous value to ratepayers and the distribution grid with a myriad of dynamic services.

Microgrids give customers the opportunity to efficiently optimize energy usage within and between connected facilities. Microgrids can optimize across load control and building management, energy imports and self-generation, electric and thermal energy, alternative fuels, and use of thermal and electric storage. Customers and communities can meet their own decarbonization and resilience goals, as well as the state’s. Microgrids are not unbuffered solar generators – they are dynamic resources that can evolve with technology and meet grid needs now and in the future as California moves towards 100% carbon neutrality.

The Commission needs to start looking at DER customers as investors in our grid of the future. The utilities cannot be the only entities investing in California’s grid, otherwise it will become even more unaffordable and unreliable. The claim that DER customers are “not paying their fair share” is disingenuous and erroneous. Customers that invest their own private capital in clean energy technologies are collectively helping to meet our climate goals and reduce the need for expensive utility infrastructure that adds to rate base. We must all share in the cost of the clean energy transition so that we mitigate the worst impacts of climate change and collectively modernize our grid in a cost-effective manner.

*DERs and microgrids reduce the need for risky, expensive, vulnerable transmission infrastructure.*

This is the single greatest benefit of DERs for the state of California. Reducing the need for transmission saves money for all ratepayers and helps mitigate the growth of rate base that is exacerbating ratepayer affordability concerns. Not only does it reduce the direct cost of infrastructure investment, but it also helps to mitigate the costs of wildfire, PSPS and other causes of power outages that cause social and economic disruption, and disproportionately harm those that can least afford it. PSPS events are a “tool” that the IOUs have stated they will continue to utilize indefinitely. Extreme weather conditions are becoming more

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<sup>8</sup> White Paper pg. 10

frequent. Transmission infrastructure is a risky and costly investment in this new era of climate change and it should be heavily scrutinized before ratepayers are forced to bear the costs.

*Tariffs promote cost sharing, not cost shifting.*

Price signals for DERs are helping to facilitate public-private partnerships and leverage private capital so that not all costs for our clean energy transition are borne by ratepayers. Tariffs and market signals for grid services and clean generation encourage private investment in the technologies and infrastructure that will help California achieve its aggressive decarbonization and climate goals with a lower return on equity than IOU spending. Effectively, private capital (and public agency capital) can be secured at a much lower cost than IOU capital derived from rate base.

Comparatively, DERs are a small drop in the bucket when compared to the costs of transmission, distribution, and other utility expenditures that are borne by ratepayers. It is paramount that the Commission encourage the growth of DERs, not discourage customers from adopting these resources. Tariffs and price signals give customers a reason to stay connected and support the grid of the future, rather than defecting from it when they are able to afford and invest in technologies that serve their own energy needs.

*The growth of DERs should not be perceived as a threat or move towards deregulation.*

There have been many statements in various proceedings about the need for safety and oversight by the Commission. DERs and microgrids installed by customers will continue to have government oversight. The proliferation of DERs by customers does not mean there will not be accountability and safety embedded in our grid of the future. DER and microgrid developers must adhere to well-established safety and industry regulations that are constantly being updated and modernized. Competitive markets provide an inherent level of accountability where developers are constantly seeking to innovate, reduce costs, and increase value to secure and retain customers.

The MRC encourages the Commission to remember what it is that makes California the world capital of technology and innovation. California needs to strategically harness the power of the private sector and the homegrown innovation that is rooted in our economy and culture. The cleantech sector is ready and willing invest in California's grid of the future if the right market signals are put in place. Competition, coupled with regulation and equity incentives for traditionally underserved customer segments, will help California achieve its goal of a more efficient grid with greater penetration of BTM resources in a cost-effective manner while also driving innovation and technological advancement that further boosts economic development and in-state job creation.

## **Conclusion**

DERs and customer microgrids are the *solution* to California's energy affordability challenges, not the problem. Utility transmission and distribution infrastructure costs must be curtailed and heavily scrutinized. The Commission must look to customers to help with the clean energy transition and a modernized grid of the future. The state cannot just rely on the utilities. Attempting to preserve the current antiquated investor-owned utility business model just cements ratepayers with unaffordable bills for last century's grid with old technology and aging infrastructure that is prone to causing outages and wildfires. The state of California is seeing this play out now. As Albert Einstein famously said, doing the same thing over and over again and expecting a different result is insanity.

The Rates En Banc should be a strong motivation for the Commission to take major steps forward to expand DERs and empower customers to participate in the clean energy transition. Tariffs and price signals for microgrids should be strengthened and improved. Microgrids built by customers and communities will

reduce costs for all ratepayers by reducing the need for expensive, risky, climate-vulnerable transmission infrastructure and allow customers to help share in the cost of our decarbonized grid of the future.

California cannot build an efficient, affordable, technologically advanced grid of the future with last century's technology and regulatory models. The MRC implores the Commission to create a new utility business model with a new regulatory compact and social contract for customers. Equity and affordability should be central tenets of a new regulatory framework governing a decentralized, decarbonized, resilient grid that is built from the bottom up with customers and communities at the forefront, not monopoly corporations driven by shareholder profits. The microgrid industry stands ready to support the state of California with this endeavor.

Respectfully submitted,

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