



On peak 288 kW x \$4.33000 x 23,751 d  
 Mid peak 2,52 kW x \$0.81000 x 22,751 d  
 Energy - Summer  
 On peak 9,075 kWh x \$0.05252  
 Mid peak 11,910 kWh x \$0.01  
 Off peak 12,338 kWh x \$0.01  
 Energy - Winter  
 Mid peak 5,624 kWh x \$0.01  
 Off peak 3,634 kWh x \$0.01  
 Customer charge  
 Power factor adjustment  
 DWR bond charge 42  
 (continued on next page)

Your Delivery charge  
 . \$272.05 transmi  
 . \$2,588.5) distrib  
 . \$22.99 nuclear  
 . \$240.17 public  
 Franchise fees repr  
 Your Generation ch  
 Transition Charge



**ORA Straw Proposal for a Procurement Process  
 August 4, 2016 Workshop  
 Integrated Distributed Energy Resources (R.14-10-003)**

**Presented By: Zita Kline and Dan Buch  
 August 4, 2016**

DWR  
 Energy - Summer  
 On peak 1,993 kWh x \$0.07981  
 Mid peak 2,616 kWh x \$0.07981  
 Off peak 2,710 kWh x \$0.07981 \$21  
 Energy - Winter  
 Mid peak 1,235 kWh x \$0.07981 \$98.57  
 Off peak 798 kWh x \$0.07981 \$63.69  
 Facilities related demand 360 kW x \$1,86000 \$669.60

# Steps of Solicitation Mechanism

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1. Deferral project identification
2. Commission need authorization
3. Solicitation
4. Commission approval
5. Cost Recovery



# Step 1. Deferral Project Identification

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- **Distribution Planning Advisory Group (DPAG)** - Identifies distribution projects which can be deferred or eliminated by distributed energy resource (DER) procurement through an investor Owned Utility (IOU) solicitation mechanism.
- **Independent Professional Engineer (IPE)** - Evaluates the distribution grid project and approves of the DER attributes the IOU proposes will defer the project as reasonable.



# Step 2. Commission Need Authorization

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- **Tier 3 Advice Letter (AL)**
  - A confidential attachment to the AL stating the DER deferral value of the “wires solution.”
  - Reference the applicable funding in the IOU’s General Rate Case (GRC) filing.
  - IPE certification that DER attributes and deferral value are reasonable.
- **DER Procurement Plan** – Developed in future phases of integrated Distributed Energy Resource (IDER) and incorporated in the DRP.



# Step 3. Solicitation

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- **Procurement Review Group (PRG)/ Independent Evaluator (IE)**
  - RFO Launch: Bidders Conference, bid submission, bid review and screening, contract negotiation, portfolio review.
- **Portfolio selected using adapted Least-Cost Best-Fit Valuation:** “Total wires solution value” measured against “Total DER value for DER deferral” plus “Total other DER value.”
- **Portfolio Review and Approval**
  - IE oversight and consent of adapted Least-Cost Best-Fit evaluation results.
  - IPE oversight and consent of DER portfolio attributes’ collective ability to meet distribution deferral need and sufficiency of physical assurance.



# Step 3. Valuation examples

## Equation 1 - Capital Investment Revenue Requirement (RR)

$$RR_1 = (\text{cost}(\$) \times \text{IOU-specific Rate of Return (ROR)}(\$)) + \text{Expenses} + \text{Taxes} + \text{Depreciation} = \sim 3.5 \%$$

## Equation 2 - Florio 3.5 % incentive, assumes 3.5% is ~ equivalent to RR<sub>1</sub>

$$RR_2 = (\text{Total cost of DER}) * 3.5\%$$

Project #	Need Authorization	Bids		Additional Cost - Florio Incentive	Least Cost Best Fit Valuation	LCBF Ranking Least-Cost Best Fit Ranking
	Total Wires Avoided Cost	Other Avoided Cost	Total DER Cost			
A	\$10M Cost \$.35M RR <sub>1</sub>	None	\$6M Cost	\$.21M RR <sub>2</sub>	\$10.35M > \$6.21M Cost effective for ratepayers	2
B	\$10M Cost \$.35M RR <sub>1</sub>	\$6M Avoided Cost of Energy	\$14M Cost	\$.49M RR <sub>2</sub>	\$10.35M > \$8.49M Cost effective for ratepayers	3
C	\$10M Cost \$.35M RR <sub>1</sub>	\$9M Avoided Cost of Energy	\$14M Cost	\$.49M RR <sub>2</sub>	\$10.35M > \$5.49M Cost effective for ratepayers	1
D	\$10M Cost \$.35M RR <sub>1</sub>	None	\$14M Cost	\$.49M RR <sub>2</sub>	\$10.35M < \$14.49M No DER deferral	Not Cost-effective.



# Step 4. Commission Approval

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- **Tier 3 Advice Letter** pending the following requirements
  - "Wires solution" value > DER distribution deferral value  
OR "Wires solution" Value > Total value of Bid Portfolio
  - Cost Effectiveness verified by IE
  - DER portfolio attributes verified to meet "wires solution" by IPE
  - If any bids include gas-fired generation resources, there must be an affirmative showing that greenhouse gas emissions are reduced over the total life of the resource.
  - Approval of the solicitation bids does not raise policy questions.
- **Application.**



# Step 5. Cost Recovery

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**Energy Resources Recovery Account (ERRA) and Distribution Revenue Adjustment Mechanism (DRAM)** - IOUs recover the cost of Bids plus the IOU incentive value less the DER Deferral Value through ERRA and DRAM.

- DRAM to recover difference between benefit (avoided wires) and apportioned DER costs.
- ERRA to recover difference between benefit (avoided generation) and apportioned DER costs.
- The method for apportioning costs still need to be determined.
- Requires implementation on a going-forward basis to avoid retroactive ratemaking concerns.







## Contact

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