



Rule 21 Working Group 3

APRIL 10, 2019 CONFERENCE CALL

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Agenda

2:00-3:20 Issue 24

- IOU responses to Clean Coalition proposals 1, 2, 3a, 3b
- IOU submissions in response to COO-related data requests
- Implications of above for proposals on what is included or excluded in COO
- Plan for final discussion during 4/17 meeting

3:20-4:00 Issue 20

- Update from SCE-led sub-group
- Continued discussion of CESA proposals #1-#4
- Plan for final discussion during 4/17 meeting

Issue 24

Should the Commission modify the formula for calculating the Cost-of- Ownership charge and, if so, how?

Issue 24:

- What the rate level is (5.76%/yr): *out of scope?*
- What the rate applies to: *in scope*

Background

Cost of Ownership: Replacement and Recovery Charges

- The cost-of-ownership charge covers a utility's on-going costs to operate and maintain upgraded facilities that are required to support an interconnection request.
- The charge currently includes the same types of costs the company incurs with its own existing facilities, such as depreciation, maintenance, property taxes, and cost of capital—despite the fact that these facilities are paid for in full by the interconnection customer.

Background

Cost of Ownership: Replacement and Recovery Charges

- Rates are set in General Rate Cases
 - The basis of the cost of ownership *rate* may be beyond the scope of this proceeding
- The formula for where this charge applies for interconnection customers should be addressed in this proceeding
 - In principle, the applicant should be responsible for, *and only for*, costs that the utility and ratepayers would not have otherwise incurred

Questions to resolve #1

- To what extent should full GRC COO be applicable to equipment paid for in full by the applicant?
 - If the only utility cost is O&M, what portion of the COO is O&M?
- **Proposal 1:** That COO be applied only to the O&M portion

Questions to resolve #2

- To what extent does replacement cost factor into charges?
 - If the service life of the equipment exceeds the term of the GIA, is it appropriate to assess replacement costs?
- **Proposal 2:** That COO replacement costs not apply to equipment paid for by the applicant with a service life equal to or exceeding the term of the GIA.

Questions to resolve #3

- Should COO assessments avoid cost shifting between parties, and maintain ratepayer indifference?
- **Proposal 3a:** Cost of ownership should not apply where replacing existing facilities for which the utility would otherwise already have a cost of ownership, such as reconductoring or upgrading existing equipment.
- **Proposal 3b:** In the alternative, the applicant should be credited for the avoided utility cost of ownership of the equipment replaced.

Issue 24 Data Requests of IOUs (PUC 3/27 email)

1. What are your existing policies and cost accounting practices related to COO? Please be specific and detailed. For example, when replaced items get zeroed out in GRC, is depreciation included and how is it treated? How are total costs vs. incremental costs or replacements treated?
2. For equipment that received GRC approval for COO cost recovery and is replaced with equipment that is financed by a customer:
 - a) How does the utility ensure that O&M and depreciation are no longer collected from ratepayers?
 - b) Are there currently cases where ratepayers continue to pay O&M that would cover the new equipment in whole or in part?
3. Please respond as appropriate to the following IOU-specific questions:
 - SCE does not charge O&M for equipment replacement that is like for like. How is this defined? Does it include re-conductoring and transformer upsizing?
 - Would PG&E and SDG&E consider not charging O&M for equipment replacement that is like for like?
 - SCE does not charge depreciation, return on investment, or income tax for upgrades that are customer financed. Is that true for PG&E and SDG&E?
 - PGE does not charge COO for moving the location of a facility. Is that true for SCE and SDG&E?
 - What are the customer options for whether to pay upfront for replacement after a certain number of years? Is the one-time payment option only available if the customer elects replacement in perpetuity? SCE stated that the one-time payment is available only if replacements in perpetuity are pre-paid, but a GRC document seems to indicate it is also available if replacement is only within a 20-year term (2015 GRC, Results of Operations Volume 1, SCE-10, p. 88). Please clarify. PG&E stated that all or most of its COO one-time payment assessments are for a 12-year term. Please verify and explain how that works.

Issue 24 Requests From 3/27 Meeting (Gridworks 3/28 email)

The IOUs are requested to address the following questions by 4/9:

- The IOUs are to respond to Clean Coalition proposals #1, #2, #3a, #3b
- How are the IOU's defining each of the individual items that go into the COO? Can they provide the documentation that outlines COO and the associate term definitions to the working group for reference?
- Is there currently some level of reporting that the IOU's might have internally that shows how much of the COO funds are used vs what has been charged?
- Would like to get IOU thoughts on True-ups for actuals to where there is a potential refund to the customer at the end of a specified term.
- Example of what I would like to see happen: Customer paid COO in one time lump payment including replacement and perpetuity of \$1,000.00, at the end of PG&E's 12 year term for the Special Facilities Agreement the unused COO costs are \$600.00 after end of term true up evaluation. The \$600.00 is refunded via check or wire transfer to the customer within 30 to 60 business days of this determination.
- Is there an option to revise the payment policy (up-front vs incremental, as discussed in the 3/27 WG3 meeting) to allow for a one time option to exclude the replacement and perpetuity costs with added language that they acknowledge the cost will be invoiced if replacement is needed in the future.
- Is it possible to have a side by side comparison made via a chart to show how the 3 separate IOU's are similar and differ regarding the COC charge calculation?
- Visual Example: (potential add a consensus / non consensus column and a notes column for each IOU to add additional color)



Issue 24 Proposal Response – SDG&E

Response to Proposal #1: The applicant should bear the full COO for equipment requested for their sole benefit. SDG&E is not aware of and has not previously encountered any Rule 21 applicant requests in which the only utility costs incurred are O&M. If such an O&M only scenario was encountered in the future, then the applicant should bear all current and future O&M costs generated by the requested changes to existing equipment that is serving SDG&E rate payer load requirements.

Response to Proposal #2: The replacement cost is a factor in the COO which is paid by the applicant, based upon the specific equipment requested by the applicant. SDG&E is not aware that Generator Interconnection Agreements (GIA's) have a term or time-period limit associated with them and furthermore, SDG&E's position is that service-life of the replacement equipment has no bearing on the requirement of the ratepayer to bear the burden of the cost of the upgraded equipment as requested by the applicant.

Response to Proposal #3a/b: SDG&E's position is that COO assessments should not be based on the concept of ratepayer indifference. One of the primary purposes of the Rule 2 tariff requirements is to avoid the risk of ratepayers incurring costs for special facilities requested by individual customers. The concept of ratepayer indifference and avoiding cost shifting between parties as applied in Rule 2 scenarios would create a significant risk of SDG&E ratepayers subsidizing customer-specific special facilities related costs.

Issue 24 Proposal Response – SCE

Response to Proposal #1: The application of COO and what types of facilities COO is applied to is governed under Rule 2H and is not specific to interconnection facilities and is used to offset the utility's revenue requirement so as to not pass revenue requirements to ratepayers. Any proposals regarding application of COO to certain types of facilities should be reviewed under Rule 2H for parity in treatment amongst different customer classes.

Response to Proposal #2: As it is a customer election, it is their discretion whether to purchase and as discussed above, as interconnection facilities are only one set of facilities that are subject to Rule 2 (Added Facilities) changes made in this area should be reviewed under a utility's general rate case to ensure no customer class is preferred over another.

Response to Proposal #3a/b: When an interconnection customer enters into an interconnection agreement with SCE and a distribution facilities upgrade to existing equipment is required (one-time construction cost), ratepayers, not the interconnection customer, would pay O&M for the new equipment so long as the new equipment was comparable in nature to the original item of property. Alternatively, if the location where an interconnection customer will operate requires new equipment to meet the interconnection customer's needs (Example: a new capacitor bank that increases reliability in that location) ratepayers would not be responsible for O&M costs even though ratepayers may benefit from the increased reliability – the interconnection customer would be responsible for this ongoing O&M.

- In regards to a "like for like" equipment replacement of an original new asset, as discussed within Question 3 of the Commission's data request submitted April 9, 2019, SCE does not charge additional O&M. SCE defines "like-for-like" as replacing existing equipment with equivalent equipment. This generally applies to poles and reconductoring. Transformers also apply under certain operational configurations.

Issue 24 Proposal Response – PG&E

Response to Proposal #1: Comparing utility-financed vs. customer-financed, customer-financed option, utility retains ongoing ownership responsibilities. If equipment fails, utility still has to replace it, not the customer.

Response to Proposal #2: Applicant-funded equipment is ultimately owned by the IOU. The IOU is then responsible for owning and maintaining this equipment for the life of the GIA. Information concerning the average service life of equipment is litigated in the GRC. Based on the plant accounting lifecycle, an asset is fully depreciated at time of retirement regardless of retirement date. Not requiring an applicant to pay COO further shifts rates away from DER applicants and toward ratepayers.

Response to Proposal #3a/b: Due to cost causation principles, applicants should pay for the added facilities necessary to accommodate the DER, not the entire cost of the facility. Special facility charges apply only to the incremental additional cost of the facility. COO will still apply. The entity that initiates the required upgrade will be responsible for COO on that piece of equipment. Replacing equipment doesn't reduce PG&E's revenue requirement. Net plant doesn't change and other customers don't save any money when an asset is retired.

Issue 24 Data Request Response— SDG&E

The questions asked in this data request are beyond the scope of Rule 21 and relate to other tariffs, especially to Rule 2. SDG&E does not believe that distributed energy resources (DERs) should receive preferential treatment in the application of Cost of Ownership, as SDG&E applies the tariff equitably to all applicants and customers. Nonetheless, SDG&E submits the following response to this data request. SDG&E's existing policies and practices for all customer requests are outlined in Electric Rule 15 "Distribution Line Extensions,"¹ Rule 16 "Service Extensions,"² and Rule 2 Section I "Special Facilities and Maintenance."

The issue brief combines COO with Special Facilities, which are activated when a customer requests services that require facilities beyond normal service facilities already provided by SDG&E. Rule 2 Special Facilities contracts are triggered when a customer's service request requires facilities different from what is required for standard load service.

When a customer requests a Special Facility under the Rule 2 tariff requirements, the cost to the customer is determined based upon the specific replacement equipment requested by the applicant. The costs include a capital charge and an operations and maintenance (O&M) charge for each piece of equipment. The portion of the COO that is applied to capital and O&M depends on multiple factors, including asset type, associated book life of that asset, and the specific type of replacement equipment requested by the applicant. SDG&E defines the components of COO as a variety of current and future costs in this calculation, such as O&M expense, depreciation, and taxes.

Additionally, the tariff provides for Rule 2 payment finance factors. Depending on whether an applicant chooses to pay a lump sum payment or an annual payment option, the payment received for the cost of capital charge is estimated to represent the cost to construct or install the requested equipment. If a lump-sum payment is applied to those costs, SDG&E would reflect an asset in its accounting records with a zero basis (i.e. ratepayers do not bear the responsibility for the special facilities). The Rule 2 finance factors are calculated to represent future or ongoing costs related to the replacement equipment, the payment of the Rule 2 finance factors is recorded to miscellaneous revenue, offsets the future costs of the asset, and reduces the revenues needed to be collected from ratepayers as these costs are incurred. When existing equipment is replaced with a special facility, the cost of the asset does not get "zeroed out in GRC." If a customer requests a special facility and SDG&E replaces equipment that had been previously installed to serve the utility ratepayer load requirements and approved through its GRC process, SDG&E would continue to recover the cost of the asset from ratepayers.

There is not currently any level of reporting that SDG&E might have internally that shows how much of the COO funds are used relative to what has been charged. As there is no individual reporting of these equipment upgrades (or the related individual cost and payment components) as part of the mass-asset process, a true-up of estimates to actuals would not be possible within the current process. Therefore, it is not possible to do a "true-up" and provide customers with a refund check, as Tesla proposes as an example.



Issue 24 Data Request Response--SCE

- COO practices are not specific to Rule 21 "Interconnection Facilities " , but instead apply to all facilities requested by an applicant which are in addition to or a substitution for standard facilities. They include, but are not limited, to, all types of equipment normally installed by SCE in the development of its electric and distribution systems and facilities , or equipment related to SCE's provision of service to a customer , or a customer's receipt or utilization of SCE's electrical energy.
- **Construction of the Asset Financed by SCE:** SCE pays for the asset at the time of construction. The customer pays the SCE - financed rate (see table below) which includes the cost of capital, i.e., return, depreciation, and income taxes. The revenue collected for the customer - requested asset offsets S CE's revenue requirement.
- **Construction of the Asset Financed by Customer:** Customer pays for the asset at the time of construction. This payment is treated by SCE as a Contribution in Aid of Construction ("CIAC") and credited to the work order where the wor k was performed. This offsets the costs incurred by SCE to construct the asset . As a result, a ssets that are offset by CIAC payments are not included in the base for calculating cost of capital, i.e., return, depreciation , and income taxes . This process is consistent with the Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act ("Uniform System of Accounts," 18 C.F.R. § 101) . The Uniform System of Accounts , 18 C.F.R. § 101, under Electri c Plant Instruction # 2 ("Electric Plant to Be Recorded at Cost"), Section D states : "The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. Contributions in the form of money or its equivalent t oward the construction of electric plant shall be credited to accounts charged with the cost of such construction."
- **Optional Replacement Coverage:** As shown in the table below , customers *may choose* to add replacement coverage to either of the above construction financing options . ***SCE does not require an interconnection customer to purchase replacement coverage.*** Replacement coverage is analogous to buying an extended warranty for a car. If the asset needs to be replaced during the coverage period, it wil l be done at SCE cost. The cost to provide this coverage is a component in the applicable monthly rate. The revenue collected for the customer - requested asset offsets SCE's revenue requirement.
- If the customer does not choose the optional replacement coverage, any replacements needed would be performed using the same financing option chosen at the time of the original construction , i.e., SCE - Financed or Customer - Financed .
- **Ongoing Operations & Maintenance Costs:** Regardless of the construction financing option (SCE or customer) and any optional replacement coverage chosen (20 years or perpetuity) , customers are responsible for paying for the ongoing operation and maintenance of the asset. The cost to provide this is a component in the applicable monthly rate. The revenue collected for the customer - requested asset offsets SCE's revenue requirement.



Issue 24 Data Request Response— PG&E

In Advice Letter 1620-G-A/1328-E-A, approved 2/5/91, and Advice 1769-G/1434-E, Resolution E-3338, 10/20/93. The adopted method was developed as a result of discussions with parties representing Qualifying Facilities (QFs). The method captures the present value of the costs of replacement of facilities, the value of the tax benefits associated with tax depreciation, and other items. The current COO was filed by PG&E under Rule 2 (Advice Filing 3905-G filed 11/06/17, approved, 1/29/17, and effective 1/1/18). PG&E conducted a review of the cost of ownership calculation following the California Public Utilities Commission decisions in PG&E's 2017 GRC Phases 1 proceeding. The review resulted in changes to the cost of ownership rates for both gas and electric distribution equipment. From Electric Rule 2, Sheet 23: "Electric Rule 2 . 1.3.e provides that monthly cost of ownership charges are to be reviewed and re-filed when changes occur in PG&E's cost of providing such service. PG&E's review of the electric cost of ownership calculation resulted in a decrease in the Electric Rule 2.1.3.b utility-financed cost of ownership percentage from the currently effective level of 1.26% to 1.22%. The review resulted in a decrease of the customer-financed cost of ownership percentage shown in PG&E's

PG&E follows the standard retirement procedures outlined in the FERC Uniform System of Accounts (USofA), General Instructions and Electric Plant Instructions. Per the FERC USofA, an asset is fully depreciated at time of retirement regardless of retirement date.

Issue 24 Discussion

Issue 20

How should the Commission coordinate Commission-jurisdictional and Federal Energy Regulatory Commission- jurisdictional interconnection rules for behind-the-meter distributed energy resources, including modification of queuing rules for Rule 21 and Wholesale Distribution Access Tariff (WDAT) projects seeking to interconnect at the same location, clarification of the rules for projects wanting to transfer between the Rule 21 and WDAT queues, and streamlining of the transfer process?

Updated (March 19, 2019)

Proposal Concepts

- Clarify transfer processes for projects in the Rule 21 interconnection queue to the WDAT interconnection queue
- Allow Rule 21 interconnection agreements to remain applicable until a project begins new resource implementation (NRI)
- Authorize limited export configurations previously interconnected under Rule 21 to avoid the cluster study process
- Direct further working group discussions on studying DER aggregations in Rule 21 to support streamlining when moving to WDAT processes, among other things

Key Questions to Address

- **Working group discussions should focus on the following:**
 - Is the WDAT interconnection process required to re-study resources already studied under the Rule 21 processes?
 - If so, what are the key differences (e.g., reliability criteria) that must be re-studied?
 - How have the investor-owned utilities (IOUs) managed Rule 21 and WDAT transitions in the past, if there are any such examples?
 - Is the WDAT interconnection process required for assessing or establishing Resource Adequacy (RA) deliverability or for assessing deliverability impacts to other generators in the queue?
 - Are the deliverability impacts minimal to the degree that screens and pre-determined criteria for automatically exempting resources from the WDAT process?

Issue 20 – Next Steps

Next steps for March 27 meeting:

- IOUs providing views by 3/22 on workable options for providing clarification to parties on how an “exit ramp” works for Rule 21 transition to WDAT (presuming there is no change in operational characteristics).

(What type and level of clarity do parties want for an “exit ramp” from Rule 21?)

- Are Rule 21 language changes required?

Issue 20 Review and Discussion of Rule 21 to WDAT “Exit Ramp”

- IOUs believe that existing WDAT and Rule 21 tariffs are adequate to enable the transfer of interconnection projects between Rule 21 and WDAT.
- Possibilities on how to clarify process (PG&E):
 - Add reference language to Rule 21 (e.g. “to transition to WDT, refer to PG&E WDT GIP, currently Section 6.8.1.1 as such procedures may be modified from time to time”)
 - Apply current CPUC to FERC contract conversion procedures
- A detailed list of the transfer process (by each IOU) has been posted to OneDrive

Issue 20 Review and Discussion of Rule 21 to WDAT “Exit Ramp”

SCE "here are a few rules, caveats and exclusions to mention in regards to SCE’s practice in implementing of this type of transfer request”:

1. The request by a Rule 21 IR to transfer to a WDAT GIA must be made to SCE in writing.
2. SCE will evaluate the request for eligibility.
3. SCE will alert the IC in writing of eligibility for this transfer, which will outline the next steps.
4. SCE will assign a new WDAT ID number to the IR, and timelines of the WDAT will govern the process going forward
5. The IC must be willing to abide by all of the terms and conditions in the WDAT GIA, some of which may be different than those in the standard R21 Interconnection Agreement.
6. SCE will also allow transfers in the opposite direction (e.g., a WDAT IR that requests a R21 Interconnection Agreement).
7. If for some reason the new GIA doesn’t work for the IC, the IC can go back to the initial tariff GIA. However, only one "U-turn" would be considered reasonable.

Issue 20 Update from SCE-led Sub-Group

Issue 20 Continued Discussion of CESA Proposals #1-#4

Issue 20 Plan for Final Discussion During 4/17 Meeting

Working Group Schedule

Date	Meeting	Initial discussion	Final discussion	Location
Apr 10	Call			
Apr 17	In person		20 & 24; 27 & 28	CPUC – Courtyard Room
May 1	Call			
May 8	In person	Final report		CPUC – Golden Gate Room
May 22	Call			
May 29	In person		Final report	CPUC – Courtyard Room
Jun 12	Call			
Jun 24	Report due			