

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding Policies,
Procedures and Rules for the California Solar
Initiative, the Self-Generation Incentive Program
and Other Distributed Generation Issues.

Rulemaking 12-11-005
(Filed November 8, 2012)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE
ON THE ENERGY DIVISION STAFF PROPOAL TO MODIFY THE SELF-
GENERATION INCENTIVE PROGRAM**

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The California Energy Storage Alliance (“CESA”)¹ hereby submits these comments pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”) regarding the *Energy Division Staff Proposal to Modify the Self-Generation Incentive Program* (“Proposal”).

I. INTRODUCTION.

Public Utilities Code Section 379.6 was amended on June 20, 2014, by Senate Bill 861 to include revisions to Self-Generation Incentive Program (“SGIP”) eligibility requirements, program evaluation criteria, project-level requirements, and various program processes. The

¹ 1 Energy Systems Inc., Advanced Microgrid Solutions, AES Energy Storage, Aquion Energy, , Brookfield, Chargepoint, Clean Energy Systems, CODA Energy, Cumulus Energy Storage, Customized Energy Solutions, Demand Energy, Dynapower Company, LLC, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, ELSYS Inc., Energy Storage Systems, Inc., Enersys, EnerVault Corporation, Enphase ENERGY, EV Grid, Flextronics, GE Energy Storage, Green Charge Networks, Greensmith Energy, Gridtential Energy, Inc., Hitachi Chemical Co., Ice Energy, IMERGY Power Systems, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Invenergy LLC, K&L Gates, LG Chem Power, Inc., LightSail Energy, Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, Manatt, Phelps & Phillips, LLP, Mitsubishi Corporation (Americas), Mobile Solar, NEC Energy Solutions, Inc., NextEra Energy Resources, NRG Solar LLC, OutBack Power Technologies, Panasonic, Parker Hannifin Corporation, Powertree Services Inc., Primus Power Corporation, Princeton Power Systems, Recurrent Energy, Renewable Energy Systems Americas Inc., S&C Electric Company, Saft America Inc., Sharp Electronics Corporation, Skylar Capital Management, SolarCity, Sony Corporation of America, Sovereign Energy, Stem, SunEdison, SunPower, Toshiba International Corporation, Trimark Associates, Inc., Tri-Technic, Wellhead Electric. CESA’s comments do not necessarily or always represent the views of the individual CESA member companies. (<http://storagealliance.org>).

overarching intent of SB 861 was to use the ratepayer-funded SGIP to curb greenhouse gas (“GHG”) emissions and other air pollutants and support technologies that increase the efficiency, reliability, and utilization of existing grid assets.

The Staff Proposal to modify SGIP builds on a year-long effort to develop the necessary record and thoughtfully consider needed reforms to the SGIP pursuant to SB 861. Staff proposes an array of reforms to improve SGIP, including updating the list of eligible technologies, re-allocating budgets, and updating incentive structures to better fit with the key environmental and grid-support goals which match with both California law and good public policy.² The Proposal is comprehensive and commendable. Staff leveraged multiple data sources and crafted a lucid breakdown of where, how, and why the Commission should consider changes to the SGIP. CESA greatly appreciates this important work.

CESA finds many of the proposed reforms to be both logical and sufficiently substantiated by the record and Staff’s reasoning. CESA therefore provides these comments for the most part in support of many parts of the Proposal and recommends the Commission incorporate them into a final decision. CESA also recommends small but important improvements in the Proposal which should also inform a final decision.

II. CESA’S COMMENTS ON THE STAFF PROPOSAL

A. Budget Category Reforms and Sizing Should Favor A Broad Storage Market Transformation via 75% of Funds Going To The Storage Technology Bucket.

Staff proposed to adjust both the budget categories and allocations, moving to a structure where ‘Energy Storage Technologies’ is a stand-alone budget category, or ‘bucket’, that is allocated 75% of the annual SGIP funds. This bucket structure is a logical and prudent step. A focus on energy storage will provide critical supports for the grid, for ratepayers, and for the

² Proposal, pg. 7.

growing industry. The nature of the electric grid is changing, and the role and importance of energy storage grows. To support integration of renewables and to help with emerging challenges on the grid, such as large levels of renewables at certain times of the day or year, energy storage is key. Energy storage can absorb lower cost energy while also providing services to support reliability, customer needs, etc. The energy storage industry is also in a period of growth and market change.

Self-generation technologies, meanwhile, provide a different set of services and warrant their own budget category. Consolidating these technologies into a single “energy generation” category will direct competition among these resources in ways that more clearly inform customer decisions in selecting onsite generation. A clear delineation between energy storage and energy generation technologies makes sense and provides an easy division upon which the Commission can meaningfully direct funds. CESA agrees with the Proposed Decision that there is some value in reserving funds for certain groups of technologies, and strongly encourages the Commission to limit funding for other technologies to at most 25%.

CESA supports the idea of providing discretion to SGIP Program Administrators (“PAs”) to move funds from one budget category to another. This action, however, should be based on forward-looking projections of the use of funds. Methodologies for this determination would need review by the Commission. Given the state’s clean energy and policy goals, CESA imagines it would be unlikely and perhaps unreasonable to consider shifting energy storage funds into the energy generation bucket. The potential for shifting ‘stagnant’ funds into the energy storage bucket, however, could be useful.

Finally, CESA strongly supports the budget allocation level for the energy storage bucket of 75%, even though a good case for a higher budget level could be made. For example,

building on Staff’s assessment of historical SGIP funding patterns of energy storage versus that of energy generation technologies, CESA identified a trend of increasing funding for energy storage. The data shows a trend of increasing incentive use for energy storage, indicating a growing appetite for energy storage by the market.

Additionally, funding directives will naturally apply to future use and so should be informed by expectations of future grid conditions and needs. This future will involve deep penetrations of renewables at the grid level to comply with renewable portfolio standard requirements. IOU may desire some limits on renewable curtailments in order to meet annual Renewables Portfolio Standard (“RPS”) goals, emphasizing the role for energy storage cycling as offered through SGIP-eligible energy storage projects. Moreover, higher RPS conditions could direct the storage of renewable energy as likely the most useful, green, and economic tool for renewables integrations. Energy storage also provides useful ramping capability and can leverage and or respond to future time-of-use energy spreads. Tightening GHG rules also support the use of energy storage and renewables in place of other emissions-intensive generating sources. Collectively, the case for more investment in energy storage seems clear. Some of this value appears to be reflected in the findings in the *2015 Self-Generation Incentive Program Cost Effectiveness Study* (“Cost-Effectiveness Study”) that energy storage will have higher societal values in 2020 than today.³ Lastly, as noted in the Proposal, pure electric fuel-cells – a technology now considered too emissions-intensive to participate in the SGIP – has historically garnered large levels of SGIP funding every year. The removal of these resources would leave a different ‘playing field’ for the remaining technologies, where energy storage

³ *2015 Self-Generation Incentive Program Cost Effectiveness Study*, Itron, October 5, 2015, pgs. 1-9 – 1-10.

<http://www.cpuc.ca.gov/NR/rdonlyres/A2A26928-9D12-4F28-B42E-B7C94B0DDDE6/0/20151119FINALFULLREPORT.pdf>

should garner a higher level of funding. For instance, without fuel-cells, the historical data shows energy storage would account for 80% of SGIP funds in 2015. Assessing all of these reasonable data points, a case could readily be made to set the energy storage budget allocation at 80% or higher, particularly when setting rules that should exist multiple years into the future.

Year	2011	2012	2013	2014	2015	2016?
% of Rebates to Storage in Past Budgets	35.9%	39.2%	45%	45.9%	57.6%	??
Year-over-year Change		4	4.4	6.4	5.5	?
Storage % of Funds with Pure-Electric Fuel Cells Removed	60%	64%	72%	74%	80%	??

B. The Updated Eligibility Lists Should Be Adopted and Are Clear and Easy Reforms That Ensure Program Goals Are Met.

Updates to the Eligibility Lists are perhaps the simplest reforms to make to the SGIP. Once eligibility is determined, many rules are needed to conform to resource performance, provide fair incentives, and ensure ratepayer value. Adjustments to which technologies are eligible, however, ensures that only appropriate resources participate. CESA thus strongly supports the Proposal’s findings to update eligibility as one of the most important reforms. Staff’s basis for changing the reforms is fair and reasonable. Staff uses a list of requirements to guide their evaluation. In cases where requirements involve some degree of uncertainty or estimation, staff appropriately treats the requirement like a qualitative guideline or ‘preference’.⁴ Of the six requirements, CESA notes several critical findings.

Requirement #1, “**Lower Greenhouse Gas Emissions,**” was expressly required by SB 861, and is indisputably important to the California legislature.⁵ With the array of low GHG and

⁴ Proposal, pg. 9.

⁵ See, Assembly Letter to Commissioner Picker re the intent of SB 861.

clean-energy goals for the grid-sector, determining eligibility on this criterion is essential. Much stakeholder and Commission work in 2015 yielded a new GHG Emissions Factor by which to evaluate technology eligibility. Under the Proposal, currently eligible resources cannot meet this threshold, particularly with the planned declines in the threshold.⁶ Resources that cannot meet this threshold should be categorically eliminated from eligibility in the SGIP. Such resources could alternatively use biofuels to access the program, ensuring GHG reductions are achieved. The Commission's twofold findings of emissions levels for pure electric fuel cells – via an August 7, 2015 data request and via extrapolation from performance based incentive (PBI) performance data – show this technology is unacceptably emissions-intensive. The emissions factor leaves no room technologies in the SGIP that emit above the eligibility threshold, and that cannot meet the declining levels of the emissions factor, befitting the state's ongoing transition to a cleaner and lower-emissions grid. CESA also notes that the recent Commission decision to partially open the 2016 SGIP funds directed the use of the more stringent GHG Emission Factor and appeared to flag the eligibility question for one technology category in particular: "We direct the Program Administrators to update these procedures to reflect the new emissions rate approved by this Commission in D.15-11-027 for the purposes of the partially funded 2016 program. Additionally, we reserve the right to revisit the appropriateness of this procedure for determining SGIP eligibility of pure electric fuel cells following the completion of the partially funded 2016 program."⁷

Requirement #5, "**Provide benefit to society, as measured by the Societal Total Resource Cost test, or have the potential to do so,**" is a requirement with considerable impact that directs and supports Staff's proposed changes to the Eligibility Lists, again removing most

⁶ See, Proposal pg.11, and, see D.11.09-015.

⁷ "Decision Partially Suspending Disbursement of 2016 Program Year Funds and Acceptance of New Applications for the Self-Generation Incentive Program", D.15-12-027, filed December 19, 2015.

configurations of fuel cells and microturbines. CESA supports the use of the STRC test in this case because the findings, conducted by an independent third party, approximate how the costs and benefits of an SGIP-eligible resource operating under the current SGIP structures (in the 2020 environment). While reforms to the SGIP, e.g. lower incentive levels, will change these STRC findings and STRC results are not always used or preferred in certain Commission decision-making, the Proposal ‘softens’ the influence of the STRC test due some potential for the test results to be uncertain, among other factors. CESA supports this qualitative, nuanced, and reasonable approach, which yielded the Proposal’s recommendation to remove the lowest seven technologies with STRC ratios below 0.8.

CESA appreciates Staff’s consideration of energy storage resources and supports the proposal to retain eligibility of industrial size storage installations. CESA is confident that energy storage installations can support renewables integration, improve reliability, and enhance customer energy management options. Further, the proposed updates to incentive levels and to Megawatt-based project size rebate tiers will in effect lower the societal SGIP costs for larger installations, CESA is confident that energy storage resources will deliver valuable returns to ratepayers from the SGIP.

Using the STRC test for the SGIP fits with established precedent, and the judgment of Staff in applying the test results qualitatively befits the current SGIP structure where STRC is only one of six requirements for program eligibility. The Commission has used variations of standard cost-effectiveness testing dating back to the **“Standard Practice for Cost-Benefit Analysis of Conservation and Load Management Programs”** released in 1983.⁸ Under

⁸ “California Standard Practice Manual: Economic Analysis of Demand-Side Programs and Projects,” October 1, 2001, pg. 1. http://www.cpuc.ca.gov/nr/rdonlyres/004abf9d-027c-4be1-9ae1-ce56adf8dad0/cpuc_standard_practice_manual.pdf

evolving names and with some nuance, the STRC test has been used in many proceedings to evaluate the value of Demand-Side Management programs.

While the results of the expected “Market Transformation Report” will perhaps cement these eligibility decisions, findings in the Cost-Effectiveness Report provide strong indications of whether market transformation is likely and also highlight where the STRC findings are less versus more certain. An assessment of these aspects of the Cost-Effectiveness Report further supports the recommendations to remove most fuel cells and microturbines from SGIP program eligibility. CESA appreciates Itron’s detailed work on the Cost-Effectiveness Report.

For fuel cells, the report details ongoing high capital costs, supporting the expectation that such technologies will continue to fail the STRC. Data-points to this effect include data from actual SGIP projects as well as estimates by the U.S. EPA in 2014.⁹ Project data should strongly influence the Commission in this regard, and assumptions about rapid cost declines, as made in a 2011 U.S. DOE Study should be conservatively regarded. The data on degradation also highlights the need for fuel-cells to either document replacements of their ‘stacks’ to regain higher operating efficiencies, or to likely fail the emissions factor threshold.¹⁰ Similarly, data on low operating efficiencies for microturbines also appears likely to carry forward, particularly as the operating efficiencies involve a variety of factors that will likely exist in going-forward conditions.¹¹

Conversely, the Cost-Effectiveness Report highlights positive market transformation trends and other upside potentials for energy storage.¹² First, the Report’s findings potentially underestimate the societal benefits of energy storage insofar as the Studies’ analysis focuses on

⁹ See footnote 3, *infra*, pg. 4.

¹⁰ *Ibid.* pg. A-12

¹¹ *Ibid.*, pg. A-39 – A-40.

¹² *Ibid.*, pg. A-77.

demand charge reduction, rather than an amalgam of demand charge in addition to TOU rate optimization, flexibility, and other benefits.¹³ Moreover, greater and or improved use of intelligent controllers for energy storage devices, as cited in the Study, will also boost these projects' values.¹⁴ To CESA, these points indicate the STRCs for energy storage may underestimate the societal values and benefits of energy storage.

C. The Declining Step Incentive Structure Will Improve Program Operations But Needs Further Details of the Timing of Program Funding.

CESA believes the transition from annual SGIP incentives to a declining step-structure will provide numerous benefits and should be pursued. The declining step structure provides helpful certainty and should reduce the start-stop nature of the SGIP program, improving industry's ability to plan and pursue SGIP incentives as part of project deployments. The declining structure also meets the noted 'Design Principles' which should seek to improve the program.¹⁵

Several details or refinements to the declining step-down structure are needed. CESA believes the 'opening day stampedes' may continue to occur for some time, depending on rules for when steps to lower levels occur. For example, potential rules regarding caps on project developers remain unclear regarding whether and when such a developer is capped. If capped within each step, the opening of a new step could promote stampeding. These matters can be readily addressed through additional clarifications by the Commission, and CESA recommends that SGIP rules work to encourage program participation but not to reward efforts to 'game' the application process. CESA thus recommends the Commission implement a randomization process so that all projects submitted on the same day, *i.e.*, opening day, are selected through a

¹³ *Ibid*, pg. A-65.

¹⁴ *Ibid*, pg. A-71.

¹⁵ Proposal, pg. 20.

randomized process, rather than through a time-stamping process. The time-stamp process currently used directly incents the stampede.

Rules for managing the differences in timing between the annual funding authorizations of SGIP and the proposed declining steps also need clarification. CESA believes balancing accounts which address interest charges could be used to manage timing differences. The commission should ensure that SGIP ‘self-funds’ in this regard. Finally, rules should guard against situations where truly infeasible projects ‘clog’ the queue of projects. Relatedly, rules should address how funds are redeployed when projects from higher incentive ‘steps’ drop out. CESA details safeguards against ‘queue clogging’ more in discussion below.

D. Rules should restrict the likelihood of truly infeasible projects being able to reserve funds or from parties submitting the same project multiple times.

While the proposed reforms may resolve many challenges with SGIP, CESA believes further modest rule changes could limit ‘queue clogging’, gamesmanship of the application process, and other efforts to reserve funds without having projects reasonably set up. By limiting the amount of funds reserved by projects likely to fail, the Commission can reduce the chances of realistic projects missing out on higher incentive levels. For instance, with the new declining step rebates, unrealistic projects that reserve higher step incentives could materially affect the viability of subsequent projects that are relegated to a lower tier. This negative outcome should be discouraged. Safeguards against ‘queue cloggers’ will also ease SGIP administration roles for PAs to some degree. These changes can thus improve the programs fairness and efficiency.

Three main changes should be considered. These changes are modest and should still be workable for smaller or newer SGIP applicants. First, the deposit requirements should be increased from 1% to 5%. While 5% is arbitrary, it provides a directionally higher hurdle for reserving funds, discouraging unreasonable applications. Second, application deposit checks

should be required within two weeks of submitting the application. This step enforces submittal of the deposit in a meaningful way and could give clear guidance for PAs on when to cancel project awards. Third, rules should discourage strategies to submit multiple applications for the same project with the intent of ‘gaming’ the selection process. In applying the randomization process, PAs could, in cases of clear gamesmanship, cancel redundant applications so only one application per project is considered. CESA thanks the Commission for consideration of these changes.

E. CESA supports long-duration incentive structures but offers small improvement ideas.

Long-duration incentives are an important change to SGIP which CESA supports. This change better allows longer-duration storage resources to compete in SGIP and to provide deeper cycling benefits to the grid. Shorter duration resources can now also consider whether adding duration capabilities is financially prudent. These changes will improve the SGIP. To protect ratepayers, the Performance Based Incentive (“PBI”) operating requirements should scale for longer-duration projects.

F. G. More limitations on Energy Efficiency Audit Requirements are appropriate for projects in the Energy Storage bucket.

CESA appreciates Staff’s consideration of instances in which energy efficiency (“EE”) audits can create inappropriate barriers to SGIP participation. As Staff noted, the existing SGIP requirements for EE audits can be unreasonably costly to prospective SGIP applicants. The origins for the EE audit focused on the roles of cost-effective EE as a primary means to reducing customer load when properly sizing onsite distributed generation. In the cases of energy storage, however, this concern is less applicable. The role and goal of the energy storage SGIP deployment from a customer perspective is primarily on reducing peak demand (e.g. kW) and on the timing of energy use, thus load reduction through the installation of EE measures, which

impact the customer's overall energy (i.e., kWh), will have a less direct impact on the sizing of the energy storage system. The Commission may also note that the IOU-administered EE programs have substantial budgets and customer engagement operations, making participation in an IOU-administered EE program the more logical choice for any customer, versus relying on any one particular storage developer.

CESA nevertheless supports reasonable requirements to educate customers about energy efficiency solutions as part of SGIP, and so, rather than removing any EE related actions as part of SGIP, recommends the EE Audit Requirement be changed for energy storage SGIP-eligible projects. The new requirement should instead require end-customers to be informed about the availability of IOU energy efficiency programs by a developer, with no mandatory requirement for a full EE audit or the installation of measures as part of their consideration of SGIP applications. This can be accomplished, for example, by a signed affidavit submitted to PAs.

G. The initial proposed energy storage incentive level of \$1.20/kW with the requirement for two-hours of energy is reasonable.

Staff determined that a starting incentive level for energy storage SGIP projects of \$1.20/kW is appropriate. CESA agrees. This pricing level is a reasonable starting point for incentives and is not disruptively lower than the current incentive trajectory. The continuity between today's two-hour storage requirement and the proposed rules is also important. A two-hour requirement makes sense, especially with the proposed adders for longer-duration projects. CESA's members indicated a desire for more opportunities to pursue incentives for the many prospective energy storage projects, rather than for fewer projects to receive greater funding levels. To CESA, this indicates that the starting level and gradual step-downs proposed by Staff are workable to the industry and will promote robust competition, ensuring ratepayers get good value from SGIP funds directed to energy storage projects. Further lowering incentives as a

starting point could be counter-productive. For example, if the starting incentive is modestly high, the market's response in the declining step incentive level will move the market to an equilibrium point. In this process, market transformation could continue. If the starting incentive level is too low, however, the market may see very little action, stalling out before further market transformation can take place.

H. Rules to limit claimed Operation and Maintenance Expenses are prudent.

Rules should promote energy storage deployments but should not drive confusing or potentially counter-productive financial accounting practices. CESA therefore supports Staff's proposal to tighten up O&M expense rules by capping these claimed expenses at levels already in place in the federal Investment Tax Credit. Such rules are well established and have been in place for some time, indicating the rules are workable.

I. CESA supports the proposed improvements regarding dual-participation in Demand Response Programs, proposals for the California Supplier Adder, and for eventual consideration of locational adders.

The SGIP program should work to benefit California's ratepayers and economy and to promote solutions that support grid reliability. The California Supplier Adder reasonably incents the use of California's labor and manufacturing capability through SGIP. This ultimately provides incentive structures that can further benefit California ratepayers. Other rules that direct SGIP-eligible resources to provide further value to grid operations, such as through participation in demand response ("DR") programs and through the use of locational adders, provide further benefit streams to ratepayers. These benefit streams should ultimately be reflected in the STRC Tests to show the full value of SGIP-eligible resources. CESA also recommends Demand Response proceedings be updated to reflect the dual-participation determinations of SGIP, so this matter is not redundantly addressed in Demand Response proceedings.

J. Further reforms to the Performance Based Incentive (PBI) Requirements should be considered.

PBI is an important structure for SGIP because it encourages resource performance over the years. At the same time, these benefits need to be balanced by the burdens of PBI accounting and the rigidity of PBI requirements. CESA believes the Proposal to mirror requirements for retail, commercial, and industrial dispatches is prudent. Defining how energy storage devices should be dispatched, however, presumes grid conditions for many years in the future. CESA believes these assumptions may be overly restrictive. CESA thus recommends the Commission lower the required level of dispatches by 20% to 208 required annual dispatches. The 20% reduction reflects the uncertainty of the future and mirrors the 20% adjustment used by Staff to reflect uncertainty in the STRC test findings. This modest change will provide additional flexibility in dispatches of a SGIP-eligible energy storage project across the year, yet still requires ample dispatches to ensure SGIP-eligible resources are frequently used and providing value as expected. Moreover, rate changes and tariff designs will continue to drive frequent or daily energy storage system dispatches, reducing concerns of unused resources. Occasional future audits and assessments of storage resources should inform the need for the level of cycles.

Lastly, CESA recommends consideration of a PBI threshold higher than the current 30 kW threshold. PBI incentives require added levels of administrative involvement and other complexities that can add difficulties to projects. While CESA understands the role of PBI, raising the PBI threshold to 50 kW could ultimately lower the costs of operating projects, saving values for ratepayers. For longer-duration storage, the PBI operating requirements should scale.

K. The Commission could consider lower energy storage incentives on project size rebate tiers of for the third through fifth MWs.

CESA appreciates the Commission's expansion of SGIP incentives to apply for up to 5 MW projects, albeit with 25% of the incentive level for the third through fifth megawatts. CESA

recommends, however, that the Commission consider a slightly lower incentive level for these upper-limit SGIP projects so that a multitude of projects can still be funded, supporting the industry transformation goals of the SGIP. CESA also recommends a more gradual change in incentives. The current rules likely promote sizing of projects up to 3 MWs, even if conditions warrant a slightly smaller or larger project size. CESA thus recommends the declines in rebates based on project sizes occur in smaller increments or steps, e.g. of 1 MW. This way, developers have clearer incentives to size projects appropriately.

L. Rules and exemptions pursuant to D.03-04-030 need consideration and potentially reauthorization in SGIP.

D.03-04-030 established rules for the treatment of certain customer generation departing load cost responsibility surcharges. As originally structured, rules were put in place to authorize exemptions from certain costs for certain resource groups until the matter was re-evaluated by the Commission with a focus on the levels of distributed generation (DG) penetrations. CESA recommends re-establishing the exemptions for all SGIP resources equally until sufficient Commission review has occurred, including on how DG penetrations are calculated. SGIP rules should authorize these exemptions in the interim.

III. CONCLUSION.

CESA thanks the Commission for the opportunity to submit these comments on the ACR.

Respectfully submitted,



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