BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources.	Rulemaking 14-10-003 (Filed October 2, 2014)

REPLY COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE ASSIGNED COMMISSIONER'S RULING INTRODUCING A DRAFT REGULATORY INCENTIVES PROPOSAL FOR DISCUSSION AND COMMENT

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In accordance with Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the California Energy Storage Alliance ("CESA")[1] hereby submits these reply comments on the *Assigned Commissioner's Ruling Introducing a Draft Regulatory Incentives Proposal for Discussion and Comment*, issued on April 4, 2016 ("Ruling").

I. INTRODUCTION.

CESA is pleased to see broad support from multiple parties for the draft Regulatory Incentives Proposal ("Proposal") that would allow California's utilities to earn a return on contracted payments to third-party distributed energy resource ("DER") providers that defer or

[1] 1 Energy Systems Inc., Adara Power, Advanced Microgrid Solutions, AES Energy Storage, Amber Kinetics, Aquion Energy, Bright Energy Storage Technologies, Brookfield, California Environmental Associates, Consolidated Edison Development, Inc., Cumulus Energy Storage, Customized Energy Solutions, Demand Energy, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, Electric Motor Werks, Inc., ElectrIQ Power, ELSYS Inc., Enphase Energy, GE Energy Storage, Geli, Gordon & Rees, Green Charge Networks, Greensmith Energy, Gridscape Solutions, Gridtential Energy, Inc., Hitachi Chemical Co., Ice Energy, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Invenergy LLC, Johnson Controls, K&L Gates, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, NEC Energy Solutions, Inc., NextEra Energy Resources, NGK Insulators, Ltd., NRG Energy LLC, OutBack Power Technologies, Parker Hannifin Corporation, Powertree Services Inc., Qnovo, Recurrent Energy, RES Americas Inc., Saft America Inc., Samsung SDI, Sharp Electronics Corporation, Skylar Capital Management, SolarCity, Sovereign Energy, Stem, SunPower Corporation, Sunrun, Swell Energy, Trina Energy Storage, Tri-Technic, UniEnergy Technologies, Wellhead Electric, Younicos. The views expressed in these Reply Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (http://storagealliance.org).

displace utility infrastructure investments. Several parties also agreed with CESA's opening comments on the need to expedite the regulatory approval process for pilot projects, the missing consideration of investment scales in Request for Offers ("RFOs"), and the various non-financial disincentives for DER deployment that are not addressed by the Proposal, such as interconnection processes, third-party access to forecasts and distribution grid constraints, and valuation of environmental benefits.

However, CESA was disappointed to see that some parties, most notably the investor-owned utilities ("IOU"), did not express support for the Proposal in their Comments. In addition to responding to the IOUs' arguments against testing and validating the *r-k* framework in the Distributed Resource Plan ("DRP") pilots, CESA stresses the importance of developing a roadmap that outlines a path forward to a sustainable DER deployment framework. Several parties' comments alluded to the need for a roadmap and vision in the Proposal by describing how the Proposal should be intended to be a transitional step in this proceeding. Therefore, CESA proposes its vision and roadmap for DER deployment in these reply comments.

II. A ROADMAP THAT DESCRIBES A PATH TO TRANSITION FROM PILOT PROJECTS TO A SUSTAINABLE DISTRIBUTED ENERGY RESOURCES DEPLOYMENT FRAMEWORK IS NEEDED.

CESA sees significant value in validating the *r-k* framework for DER deployment in the DRP pilot projects, but believes that a roadmap needs to be developed that outlines the path for transitioning toward a more sustainable DER deployment framework. CESA is optimistic that developing this sustainable framework is possible, but in the absence of foundational principles to guide new utility business model development, and without a roadmap to inform the next steps to take following these pilot exercises, there is a risk that the DRP pilots will result in one-off exercises. Considering the long-run goal of this proceeding is to address "utility role, business model, and financial incentives to DER deployment,"[2] the Commission should develop a roadmap that explains how the *r-k* framework could potentially be modified, scaled, and/or replicated across different locations on the distribution grid. As it stands, there is no consideration for how the results of the DRP pilots could be used to develop sustainable utility business models that encourage quick and cost-effective DER deployments, which are critical to achieving the state's energy, environmental, and grid reliability goals.

CESA supports the Comments filed by Vote Solar that the absence of a roadmap may cause the IOUs "to delay or obstruct DER deployment and may forego earning small incremental shareholder value enhancement from programs such as this without a clear understanding of… the ultimate impact on their stock prices and business models."[3] CESA agrees that, without a roadmap and vision, the IOUs may not place much weight on the DRP pilot study results and may not consider how the *r-k* framework (or an alternative incentive mechanism or approach) could be applied in other locations, in other types of procurement, or for different distribution grid needs. CESA and several other parties agree that the testing and validation of this *r-k* framework for DER deployment represents only an incremental and potentially transitional step to change utility incentives for a very specific use case (*i.e.*, distribution deferral), but the Commission has not clarified how the DRP pilot program would transition to the next level of analysis or scale, or address the IOUs' long-term incentives to have customers still rely heavily on a centralized power system.

Importantly, this proceeding would benefit from a road-mapping exercise similar to New York's Reforming Energy Vision ("REV") that identified the key principles in developing a

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[2] *Joint Assigned Commissioner and Administrative Law Judge Ruling and Scoping Memo*, issued on February 26, 2016, p. 7.

[3] Vote Solar Comments, p. 2.

utility business model for the future. For the REV proceeding on ratemaking and utility business models, the following principles were identified:[4]

- Align utility earning opportunities with customer value
- Maintain flexibility in the regulatory model to adapt to the market
- Provide accurate and appropriate value signals
- Maintain an operationally and financially sound electric industry
- Shift balance of regulatory incentives to market incentives
- Achieve public policy objectives

CESA supports the above principles and believes that a roadmap developed on the basis of these principles to guide the actual path for implementation of a new sustainable framework is needed.

III. LOCATIONAL VALUES AND SOURCING MECHANISMS CAN BE TESTED WITHIN THE SAME PILOT PROJECTS.

The IOUs argue that it is premature to test and validate the DER regulatory incentive structure in the DRP pilots without first understanding distribution grid needs and DER service capabilities. Rather, the IOUs recommend a sequencing of DRP proceeding efforts followed by IDER work.[5] CESA finds such a sequencing to be an imprudent use of resources and time and believes that assessing distribution grid needs and DER service capabilities in the DRP pilots can occur simultaneously with testing a sourcing and compensation mechanism. Ultimately, DERs will need to be procured to test their service capabilities and validate the methodologies for Locational Net Benefits Analysis ("LNBA") and Integrated Capacity Analysis ("ICA") in the DRP pilots. Since this procurement is taking place in any event, CESA disagrees with the IOUs' position.

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[4] *Case 14-M-0101 – Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*, *Staff White Paper on Ratemaking and Utility Business Models*, published on July 25, 2015, pp. 7-8.

[5] Joint Utilities Comments, pp. 3-4.

IV. <u>CONVENTIONAL SOLUTIONS SHOULD NOT HAVE ANY PART IN THE PILOT PROJECTS.</u>

The IOUs propose the idea of "[including] options for the utility to pursue a conventional solution, if the DER solution is not likely to materialize" in their Comments.[6] However, it is unclear to CESA what would constitute when DERs "don't materialize." More importantly, all pilots are intended to test and learn new concepts and ideas. In this case, the DRP pilots are intended to learn about DER values and test new sourcing mechanisms such as the *r-k* framework for DERs from the Proposal. Such learning cannot occur if DERs are not procured as part of the DRP pilots. CESA finds it inappropriate to pursue conventional solutions in the DRP pilots because there is already existing knowledge of their capabilities and costs and no additional learning could be achieved. To the greatest extent possible, CESA urges that the IOUs be allowed to experiment in this pilot and not be overly burdened by the possibility of failure in the interest of testing and validating the *r-k* framework from the proposal. Even if DERs are not "ideal" in the IOUs' eyes, the best available DERs should be tested.

V. <u>CONCLUSION</u>.

CESA appreciates the opportunity to submit these reply comments on the Ruling and the Proposal and looks forward to working with the Commission, the IOUs, and other parties going forward in this proceeding.

Respectfully submitted,

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[6] Joint Utilities Comments, p. 15.