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)

COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE PROPOSED DECISION ADDRESSING COMPETITIVE SOLICITATION FRAMEWORK AND UTILITY REGULATORY INCENTIVE PILOT

Donald C. Liddell
DOUGLASS & LIDDELL
2928 2nd Avenue
San Diego, California 92103
Telephone: (619) 993-9096
Facsimile: (619) 296-4662
Email: liddell@energyattorney.com

Counsel for the
CALIFORNIA ENERGY STORAGE ALLIANCE

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Pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the California Energy Storage Alliance ("CESA")[1] hereby submits these comments to the *Proposed Decision Addressing Competitive Solicitation Framework and Utility Regulatory Incentive Pilot* issued by Chief Administrative Law Judge Karen V. Clopton on November 10, 2016 ("Proposed Decision").

[1] 8minutenergy Renewables, 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, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, Electric Motor Werks, Inc., ElectrIQ Power, ELSYS Inc., Energy Storage Systems Inc., Enphase Energy, GE Energy Storage, Geli, Gordon & Rees, Green Charge Networks, Greensmith Energy, Gridscape Solutions, Gridtential Energy, Inc., Hitachi Chemical Co., Ice Energy, IE Softworks, 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, Mercedes-Benz Research & Development North America, Nature & PeopleFirst, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, 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, Southwest Generation, Sovereign Energy, Stem, SunPower Corporation, Sunrun, Swell Energy, Trina Energy Storage, Tri-Technic, UniEnergy Technologies, Wellhead Electric, Younicos. The views expressed in these Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. The views expressed in these Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (http://storagealliance.org).

I. INTRODUCTION.

CESA commends the Commission for its role in developing sourcing mechanisms in this proceeding that align with the capabilities of distributed energy resources ("DERs") and encourages the utilization and compensation of DERs that serve distribution grid needs. CESA therefore generally supports the Proposed Decision's determinations on the Competitive Solicitations Framework in adopting the Competitive Solicitations Framework Working Group's recommendations, as published in the August 1, 2016 Final Report, where there was full consensus among involved stakeholders. Similarly, CESA supports the pilot projects proposed in the Proposed Decision overall. While generally positive, CESA offers a few comments below on the Proposed Decision that would ensure that the proposed pilot projects effectively test the Competitive Solicitations Framework and the proposed DER incentive.

II. THE COMPETITIVE SOLICITATION FRAMEWORK SHOULD CLEARLY SPECIFY DISTRIBUTION NEEDS AND APPROPRIATELY MEASURE INCREMENTALITY.

CESA largely agrees with the Proposed Decision in adopting the Competitive Solicitations Framework Working Group's recommendations where there was full consensus and testing different methodologies or plans where there was partial or no consensus. The Working Group was a stakeholder-driven process that ensured that organizations representing DER providers such as CESA and its members were involved. However, there are a few areas where CESA offers brief comments.

First, CESA agrees with the Proposed Decision that contingency plans should be developed by the Distribution Planning Advisory Group ("DPAG"), but cautions that the investor-owned utilities ("IOUs") should clearly define and detail the distribution service needs. In doing so, it will be clear to DER providers in determining how to propose their DER solutions to meet a certain distribution deferral need or provide specific distribution services (*e.g.*, voltage control or reliability). At the same time, the Commission will have a clearer understanding of how and when DERs would "prove unviable" when reviewing IOU solicitation results.

Second, with the Competitive Solicitations Framework Working Group failing to reach a consensus on methods to prevent the double counting of services, the Proposed Decision reasonably proposes to test three potential methods to determine whether DERs are incremental. CESA supports the testing of different methods, but adds that whichever method is adopted later should be the same and consistent across the IOUs. Furthermore, CESA favors methodologies that accurately measure the incrementality of DERs and do not generally preclude DERs from participation in a solicitation based on participation in another DER-related program. Certain DERs, such as energy storage, are capable of multiple-use applications that allow compliance with eligibility criteria and performance requirements of one program while also meeting a different set of requirements as part of an IOU solicitation and providing appropriate grid service or 'value' or incremental values as needed. Methods to measure incrementality should not automatically disqualify a DER for an IOU solicitation because it is part of another program, but rather should consider the eligibility criteria and performance requirements of that program to determine whether the DER can provide incremental distribution grid services as part of the IOU solicitation.

Finally, CESA agrees with the Proposed Decision that some interim work in the DPAG can be done in the proposed pilots while the Distributed Resource Plans proceeding (R.14-08-013) develops the Locational Net Benefits Analysis ("LNBA") and Integrated Capacity Analysis ("ICA") and conducts its own set of demonstration projects. CESA sees no reason why the two activities cannot act concurrently and allow for the DPAG to be updated with findings from R.14-08-013.

III. <u>THE COMMISSION SHOULD REVISE THE PROPOSED DECISION TO REQUIRE TWO PILOT PROJECTS TO ENSURE AT LEAST ONE PILOT PROJECT TESTS SOURCING BEHAVIOR IN RESPONSE TO A DISTRIBUTED ENERGY RESOURCE INCENTIVE.</u>

CESA supports the Proposed Decision's approval of one required pilot project to test elements of the Competitive Solicitation Framework. Many lessons can be learned from enacting the recommendations of the Competitive Solicitation Framework Working Group, in addition to helping to resolve some of the areas where there was only partial or no consensus related to the Competitive Solicitation Framework.

CESA also largely supports testing of the IOUs' sourcing behavior under a new DER earnings opportunity. Rather than overly focusing on the *r minus k* value as was done in the initial DER incentive proposal or the right DER incentive level, the Commission rightly moves toward testing whether DERs can be incentivized for avoidance or deferral of otherwise planned IOU expenditure in setting a certain pre-tax incentive to be applied to annual payment of the DER alternative. The right DER incentive level can be calibrated over time, also taking into account a number of other factors (*e.g.*, ratepayer impact, DER investment scale, and DER portfolio solutions).

CESA's main concern with the Proposed Decision is that sourcing behavior in response to this new DER earnings opportunity will be tested in up to three additional *but optional* projects. Potentially, zero additional projects, or just projects from one or a couple IOUs, to test the DER incentive proposal could result. However, CESA sees tremendous learning and experience value in multiple tests or iterations of the IOUs sourcing behavior, as each IOU has slightly different views and approaches with DERs as well as different business models and strategies. Rather than allowing for the testing of the DER incentive proposal to be optional, the Commission should require two pilot projects from each IOU – one to test the Competitive Solicitations Framework and the other to test the DER incentive proposal.

Furthermore, in addition to the two required pilot projects from each IOU, CESA recommends revisions to the Proposed Decision to allow for up to two additional and optional pilot projects that test alternative incentive mechanisms, such as those proposed by SCE (*i.e.*, the upfront, rate-based payment after the DER has been built out and the non-rate-based DER contract payment that is multiple times larger than 4%). While SCE's alternative incentive mechanisms may require some more public vetting, CESA sees no point in having potentially three different pilot projects by each IOU (so up to nine projects) testing the same 4% pre-tax incentive mechanism. CESA believes that more learning could be achieved with different incentive mechanisms tested.

IV. <u>THE COMMISSION SHOULD CLARIFY THAT DISTRIBUTED ENERGY RESOURCES THAT AVOID OR DEFER TRADITIONAL INFRASTRUCTURE INVESTMENTS CAN PROVIDE LONG-TERM BENEFITS.</u>

A key benefit of DERs is that they can provide long-term benefits in deferring or avoiding traditional infrastructure benefits. While the Proposed Decision does not explicitly preclude long-term DER contracts with the IOUs, its language is unclear and could suggest that DERs are a short-term solution in deferring traditional infrastructure investments for a short period of time. Specifically, the Proposed Decision states that the DER incentive would only be recovered as long as the procured DER successfully avoids or defers an otherwise planned IOU expenditure, and once the deferral period ends and a traditional investment is made, the incentive can no longer be recovered.[2] CESA recommends that the language in the Proposed Decision be clarified to ensure that DER solutions may enter into long-term contracts where the DER incentive continues to be applied for avoided traditional infrastructure investments. This would be a minor but important change to the language of the Proposed Decision.

V. <u>CONCLUSION</u>.

CESA appreciates the opportunity to submit these comments on the Proposed Decision and looks forward to working with the Commission and the IOUs in ensuring the success of the Competitive Solicitation Framework and proposed pilot projects.

Respectfully submitted,

Donald C. Liddell
DOUGLASS & LIDDELL

Counsel for the
CALIFORNIA ENERGY STORAGE ALLIANCE

Date: November 30, 2016

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[2] Proposed Decision, p. 14.