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July 14, 2017

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CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102

**Re: Response of the California Energy Storage Alliance to
Advice Letter 3855-G/5096-E of Pacific Gas and Electric Company**

Dear Sir or Madam:

Pursuant to the provisions of General Order 96-B, the California Energy Storage Alliance (“CESA”)¹ hereby submits this response to the above-referenced *Request for Approval of Distributed Energy Resource Procurement (DER) for the IDER Utility Regulatory Incentive Mechanism Pilot (Incentive Pilot)*, submitted on June 16, 2017 (“Advice Letter”).

I. BACKGROUND AND INTRODUCTION.

Pacific Gas and Electric Company (“PG&E”) submitted their Advice Letter requesting approval to initiate a solicitation process to procure cost-effective distributed energy resources

¹ 8minutenergy Renewables, Adara Power, Advanced Microgrid Solutions, AES Energy Storage, AltaGas Services, Amber Kinetics, American Honda Motor Company, Inc., Bright Energy Storage Technologies, BrightSource Energy, Brookfield, Consolidated Edison Development, Inc., Customized Energy Solutions, Demand Energy, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, EDF Renewable Energy, ElectriQ Power, eMotorWerks, Inc., Energport, Energy Storage Systems Inc., GAF, Geli, Green Charge Networks, Greensmith Energy, Gridscape Solutions, Gridtential Energy, Inc., Hitachi Chemical Co., IE Softworks, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Johnson Controls, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, Magnum CAES, Mercedes-Benz Energy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., NICE America Research, NRG Energy, Inc., Ormat Technologies, OutBack Power Technologies, Parker Hannifin Corporation, Qnovio, Recurrent Energy, RES Americas Inc., Sharp Electronics Corporation, SolarCity, Southwest Generation, Sovereign Energy, Stem, STOREME, Inc., Sunrun, Swell Energy, UniEnergy Technologies, Viridity Energy, Wellhead Electric, and Younicos. The views expressed in this Response are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (<http://storagealliance.org>).

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(“DERs”) that would allow PG&E to defer traditional infrastructure investment in accordance with Ordering Paragraph 14 of D.16-12-036. CESA generally supports the intent of this pilot project to test and validate the recommendations of the Competitive Solicitation Framework Working Group (“CSFWG”) and a 4% pre-tax regulatory incentive mechanism. For this pilot project, PG&E seeks distribution capacity from DERs to defer traditional infrastructure projects from June 2020 to October 2024, with maximum bids of 2 MW and minimum bid increments of 250 kW. Specifically, PG&E is seeking dispatchable resources that may be called on a day-ahead basis for up to six times a month but for no more than 3 consecutive days and for no more than 12 days total during the summer (June to October) from 3 to 9 pm. During these potential dispatch windows, load cannot be added. Meanwhile, the seller is free to operate the resources as it wishes when it is not needed for distribution capacity and to monetize and retain any revenue streams outside of the PG&E contract.²

Energy storage resources appear to be well-positioned to provide the requested grid services. Importantly, CESA commends PG&E for proposing a well-defined product and operational parameters for DER solution providers, while allowing for some flexibility to build a portfolio of DER resources to meet all or part of the need. In addition, CESA supports PG&E’s contingency plan to procure the next-best DER alternative from the solicitation to backstop any potential deployment contingencies. CESA believes that a DER-based contingency plan will be an important element to test in these pilots to generate important learnings, as required in the principles adopted by the CSFWG in D.16-12-036.

However, CESA has identified several issues in the advice letter that should be addressed by PG&E to provide greater clarity and market certainty to bidders and ensure robust participation by DER solution providers. In particular, CESA submits this response for the following reasons:

- The double counting methodology used by PG&E must clearly define what types of DER resources are wholly or partially incremental.
- Project timing criterion for selecting eligible projects does not reflect the procurement and deployment timeline of all DERs, especially existing projects.

II. DISCUSSION.

The double counting methodology used by PG&E must clearly define what types of DER resources are wholly or partially incremental

The CSFWG and the subsequently formed Distribution Planning Advisory Group (“DPAG”) has yet to come to a consensus on addressing incrementality and double-counting of

² Advice Letter, pp. 6-7.

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services provided as it relates to distribution services that could be provided by DERs. D.16-12-036 did not adopt a specific method to address these issues and left it to open to further exploration,³ but required that the parameters be “clear and constant” and to comply with the principles recommended by the CSFWG,⁴ as listed below:⁵

- Ensure that ratepayers are not paying twice for the same service
- Ensure the reliability of a service, i.e., ensure it is not counting on a service to be there when the service might be deployed at another time or place
- Not be unduly burdensome to participants
- Be technology-neutral
- Be fair and consistent
- Recognize that a distributed energy resource is eligible to provide multiple incremental services and be compensated for each service
- Be flexible and transparent to bidders.

As currently proposed, PG&E does not propose a “clear and constant” or “transparent” incrementality methodology. PG&E plans to place bids into three different categories of ‘sourcing’ to determine incrementality: (1) not already sourced through another channel; (2) partially sourced through another channel; and (3) fully sourced through another channel. However, no further detail is provided. PG&E also proposed an alternative option that was originally suggested by the California Efficiency + Demand Management Council (“CEEDMC”) that sets a 15% overlap factor for both energy efficiency and distributed generation resources. However, this option does not appear to be applicable to energy storage resources.⁶

CESA believes that concrete examples are needed as it is unclear to bidders whether their DER resource’s participation in another program or tariff would be determined as non-conforming due to full sourcing from other channels and therefore ineligible to participate, or whether their distribution capacity payments will be discounted due to its partial sourcing from other channels. Clarity is needed from the outset on how this categorization occurs and how the bids are discounted to avoid broad discretion by PG&E to determine this during the procurement process. Rather, it appears that the bidders must make their case for why their proposed project

³ D.16-12-036 Findings of Fact 13 and 17.

⁴ D.16-12-036 Findings of Fact 6 and 11.

⁵ D.16-12-036, pp. 18-19.

⁶ Advice Letter, pp. 11-12.

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is incremental, after which PG&E will make a determination on the incrementality of the project.⁷

CESA has two specific recommendations for PG&E as it clarifies sourcing channels for which a DER would be considered not, partially, or fully sourced. First, Self-Generation Incentive Program (“SGIP”) projects generally should be considered ‘un-sourced’ projects for the purposes of this solicitation since SGIP is an incentive program intended to deploy energy storage and other clean distributed generation technologies for the purposes of market transformation of technologies that are capable of providing grid services. In other words, SGIP is an incentive program, not a payment for grid services rendered, even though many projects either are on or are required to be on grid-support tariffs. SGIP is intended to catalyze the energy storage industry to reduce the costs of energy storage and help it reach self-sufficiency by allowing it to pursue other monetizable opportunities (*e.g.*, distribution capacity for traditional infrastructure investment deferral). PG&E hinted at SGIP-funded projects being potentially partially incremental.⁸

While grid support is one of the key program goals of SGIP, these energy storage systems are currently required to meet specified operational requirements and be on time-variant rates. It is important to note the difference between rate schedules that incentivize customers to shape their load ‘voluntarily’ versus explicit grid services solicited and contracted for – *e.g.*, demand response (“DR”) programs. The former is not a sourcing channel while the latter is a sourcing channel. Additionally, CESA recognizes that SGIP-funded projects are also allowed to dually participate in DR programs, which provides revenues for grid services rendered.⁹ For these types of SGIP-funded projects, CESA finds it appropriate to categorize these projects as partially sourced by the DR program in which the project is participating, for the aforementioned reasons. Generally, CESA believes it is important to consider whether the specific services being bid in by SGIP-funded projects are distinct and incremental relative to what the resource would otherwise do in response to rates. Generally, CESA believes it is important to consider whether the specific services being bid in by SGIP-funded projects are distinct and incremental relative to what the resource would otherwise do in response to rates.

Second, PG&E should consider energy storage systems paired with Net Energy Metering (“NEM”) generators as partially incremental. Specifically, the energy storage component of the combined system should be considered incremental to the degree that energy storage discharge is ‘firmed’ and the energy storage system reserves capacity to deliver energy during the identified grid reliability need. CESA notes again the difference between rate schedules that incentivize certain desired load shapes through time-variant energy payments versus, in this case,

⁷ Advice Letter Attachment J1, pp. 10-11.

⁸ Advice Letter, p. 11.

⁹ D.16-06-055, p. 38 and Findings of Fact 37.

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distribution capacity, which is specifically procured as a grid service. It is incumbent on the DER operator to provide the distribution capacity and manage their operations around their rate schedule or tariff. Furthermore, consistent with the CSFWG's principles, multiple-use applications should be allowed.

Project timing criterion for selecting eligible projects does not reflect the procurement and deployment timeline of all DERs, especially existing projects

PG&E laid out its detailed process and otherwise reasonable justifications for selecting the identified deferrable project for this solicitation, but it errs in assuming that DERs can only be cost effectively procured and in a timely manner by 2020.¹⁰ CESA believes that the project timing criterion for identifying projects should be relaxed and instead allow for deferrable projects with shorter lead times given proven DER deployment timelines. The emergency procurement in the Aliso Canyon Energy Storage ("ACES") Request for Offers ("RFO") demonstrated how energy storage can be procured to meet a critical local reliability need within 6-7 months. Furthermore, CESA notes that there may be existing DERs that either have spare capacity or can create spare capacity through repurposing to provide distribution deferral services while adhering to contractual obligations. R.15-03-011 is in the process of adopting multiple-use application principles and frameworks for energy storage resources to ensure that certain "reliability services" are singularly contracted for and prioritized over "non-reliability services" (e.g., demand charge management).¹¹ The greater consideration of existing projects will overcome lead-time and cost concerns, increasing the number of deferrable projects to those that can provide voltage support and reliability back-tie services. In addition, as noted above, existing projects or short-lead-time projects can serve as a backstop and provide contingency planning if the initial winning DER project fails to be deployed or perform according to expectations.

Given the compressed timeline to seek regulatory approval and begin issuing final solicitation documents and materials, CESA does not wish to delay PG&E's pilot launch, but requests that additional projects be considered, if possible, by applying a relaxed timing screen. With the consideration of existing DERs and short-lead-time DER solutions, CESA believes the range of deferrable projects can be expanded. Furthermore, by considering deferrable projects earlier than a 2020 or later need, CESA notes that concerns about uncertain load forecasts are lessened – *i.e.*, load forecasts 1-2 years out is less speculative than load forecasts 3-4 years ahead.¹²

¹⁰ Advice Letter Attachment A, p. 1.

¹¹ *Administrative Law Judge's Ruling Seeking Comments on Joint Staff Proposal*, R.15-03-011, issued on May 18, 2017.

¹² Advice Letter Attachment A, p. 2.

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III. CONCLUSION.

CESA respectfully requests that the aforementioned issues be addressed in the pilot solicitation and design. These changes will be important to ensure that energy storage resources will be able to fairly and reasonably compete in this solicitation and ensure that important lessons are learned to later scale this pilot project to other distribution deferral projects at a wider scale.

Very truly yours,



Donald C. Liddell

DCL/md
Enclosures

cc: Erik Jacobson, PG&E (PGETariffs@pge.com)