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)

REPLY COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE PROPOSED DECISION ESTABLISHING EQUITY BUDGET FOR SELF-GENERATION INCENTIVE PROGRAM

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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 *Proposed Decision Establishing Equity Budget for Self-Generation Incentive Program*, issued by Acting Chief Administrative Law Judge Anne E. Simon on August 25, 2017 ("PD").

I. INTRODUCTION.

CESA appreciates the opportunity to submit reply comments on the PD. These reply comments make the following points in response to other parties:

[1] 8minutenergy Renewables, Able Grid Energy Solutions, Adara Power, Advanced Microgrid Solutions, AES Energy Storage, AltaGas Services, Amber Kinetics, American Honda Motor Company, Inc., Bright Energy Storage Technologies, BrightSource Energy, Brookfield, California Environmental Associates, 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, Qnovo, Recurrent Energy, RES Americas Inc., Sempra Renewables, Sharp Electronics Corporation, SolarCity, Southwest Generation, Sovereign Energy, Stem, STOREME, Inc., Sunrun, Swell Energy, Viridity Energy, Wellhead Electric, and 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. (http://storagealliance.org).

- Rate designs aligned with greenhouse gas ("GHG") benefit are needed, not new operational requirements, to efficiently and effectively meet the program's goals.
- The Equity Budget should establish an automatic incentive rate step-up using the schedule of incentive rates established in D.16-06-055 to facilitate market transformation of disadvantaged and low-income communities.
- The Equity Budget implementation should be decoupled from Step 3 opening of the non-equity budget categories.

II. RATE DESIGNS ALIGNED WITH GREENHOUSE GAS BENEFIT ARE NEEDED, NOT NEW OPERATIONAL REQUIREMENTS, TO EFFICIENTLY AND EFFECTIVELY MEET THE PROGRAM'S GOALS.

CESA strongly supports the program's goal to decrease GHG emissions. However, without rate designs that are largely aligned with marginal GHG emissions rates, energy storage signals will sometimes receive signals to charge and discharge without accordance to grid, customer, and GHG benefits. The investor-owned utilities ("IOUs") continued to note in their comments how "energy storage technology incented by SGIP has increased GHG emissions because they have been primarily used for customer bill optimization" and pointed to Itron's 2016 Energy Storage Impact Analysis as evidence of this.[2] As CESA has previously commented, this impact analysis consists of insufficient data to make determinations for any new operational requirements at this time, and CESA believes a large driver of energy storage dispatch time-frames are utility rates. The new 2016 Energy Storage Impact Analysis may again highlight how mis-aligned retail rate structures sometimes misdirect the dispatch of storage systems. Nevertheless, the new report should also provide further insights on potential next steps to align energy storage systems to operate for GHG benefit, and CESA looks forward to working with the Commission on this matter.

To emphasize how energy storage systems operating at the time of the report's analysis receive economic signals from dated time-of-use ("TOU") periods and non-coincident demand charges, the record should include information about how retail rate 'peak' periods are shifting. In fact, grid conditions have changed to such a degree that newer retail rate periods are occurring in the early evening.[3]. As rates are revised in accordance with marginal generation energy,

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[2] Joint IOU comments at p. 2.

[3] *Decision Adopting Revenue Allocation and Rate Design for San Diego Gas & Electric Company*, D.17-08-030 issued on August 25, 2017, pp. 23-26.

capacity, transmission, and distribution cost analysis, CESA expects energy storage projects will provide more stable GHG-reductions (and other grid benefits).

Based on these fundamental truths about how retail rates do or do not reflect grid conditions and how energy storage systems respond to retail rates, any further analysis should not necessarily direct extra operational requirements, such as the IOUs suggest. Such operational requirements are inflexible and limit the full utilization of the energy storage asset for multiple applications. Furthermore, such requirements inevitably create tension or outright conflicts with the direct economic signals a customer faces for the customer's servicing tariff. The GHG reduction goal of the program could be more efficiently accomplished through GHG-aligned rate designs, which are superior and provide a flexible economic signal. Notably, the IOUs stated in their comments that additional operational rules be put in place to "mimic TOU rates,"[4] which merely highlights how better GHG-aligned TOU rates should be the key goal. Concerns about the timeliness of implementing improved TOU rates can be addressed by developing and immediately implementing CESA's previously proposed opt-in, sub-metered charging tariffs aligned with marginal GHG emissions.[5]

III. THE EQUITY BUDGET SHOULD ESTABLISH AN AUTOMATIC INCENTIVE RATE STEP-UP USING THE SCHEDULE OF INCENTIVE RATES ESTABLISHED IN D.16-06-055 TO FACILITATE MARKET TRANSFORMATION OF DISADVANTAGED AND LOW-INCOME COMMUNITIES.

The Center for Sustainable Energy ("CSE") raises an important point about the extra administrative steps needed to verify customers for eligibility in the Equity Budget, which suggests that a higher incentive level is needed. CSE states that, "a more burdensome application process with no added incentive will likely result in otherwise eligible small business Equity Budget projects applying to the non-equity budget category or not at all, thereby undermining the Commission's efforts to encourage and track participation of equity-eligible projects.[6] GRID Alternatives, meanwhile, conducted a net present value ("NPV") analysis of energy storage systems on various TOU CARE rate schedules to highlight how higher incentive

[4] Joint IOU comments at p. 8.

[5] *Comments of the California Energy Storage Alliance on Assigned Commissioner's Ruling on Implementation of Assembly Bill 1637*, filed on January 31, 2017, pp. 12-15.

[6] CSE comments at pp. 3-4.

levels (i.e., Step 1 levels) are needed to drive investment in low-income communities.[7] CESA agrees with both CSE and GRID Alternatives in that higher incentive rate levels are needed. Administratively setting the incentive level to neither oversubsidize technology deployments nor to stall the market is difficult, and thus the responsive step-down structure established in D.16-06-055 is again a good means to find the 'goldilocks' incentive level. Using the existing framework to set up an automatic step-up schedule in response to a reasonable triggering event is, in CESA's view, a highly efficient means to accomplish this end.

Alternatively, CESA supports GRID Alternatives' recommendation to set the Equity Budget incentive rate at Step 1 levels right away, instead of waiting to see if the market responds to Step 3 rates. GRID Alternatives provides compelling financial analysis to show the need for Step 1 incentive rates. This approach is also supported by the facts that the program was at Step 1 incentive rates three months ago and that the situation for disadvantaged communities ("DACs") and low-income communities have not materially changed since the program opened at that incentive rate. While CESA understands wanting to take a more cautious approach to ensure prudent and targeted distribution of Equity Budget funds, potential financial barriers faced by DACs and low-income customers (*e.g.*, lack of upfront capital, creditworthiness) as well as potentially insufficient rate differentials from being on special low-income rate schedules (e.g., CARE) may warrant immediate action to set incentive rates at Step 1 levels. To the degree that the rate of program subscription has slowed considerably, as evidenced by the fact that most PAs still have available Step 2 funding, the mere establishment of an Equity Budget seems insufficient to drive adoption and deployment in DACs and low-income communities. A higher incentive rate seems like a reasonable lever that can effectively promote deployment in those areas.

Granted, not all barriers to deploying energy storage systems are financial, as there may be non-financial barriers such as those related to lack of marketing, outreach, or other factors. CESA supports CSE's request to allow the PAs to file advice letters implement other program modifications.[8] However, CESA still recommends that the incentive rate follow the well-functioning incentive rate step-up/step-down structure set up in D.16-06-055, as it allows for

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[7] GRID Alternatives comments at pp. 5-8.

[8] CSE comments at p. 6.

more efficient program administration, avoids prolonged starts and stops of each step, and provides greater clarity to developers on incentive rates available.

IV. THE EQUITY BUDGET IMPLEMENTATION SHOULD BE DECOUPLED FROM STEP 3 OPENING OF THE NON-EQUITY BUDGET CATEGORIES.

The IOUs recommend a 90-day implementation period for the SGIP portal to reflect the new SGIP budget structure prior to the opening of Step 3 in their opening comments. CESA strongly disagrees with this recommendation and believes that the IT changes needed to reflect to propose modifications in the PD can be made without holding up Step 3 funds *for the non-equity budget categories*. Once the set-aside percentage of Steps 3-5 funding are determined, CESA believes that it is possible to continue with the opening of Step 3 funds for the non-equity budget categories using the existing IT structure since no changes are being made to the structure of those budget categories.

The IOUs do raise an important point about 'dropped out' Steps 1 and 2 reservations and wanting to protect against those attrition funds falling into the later steps, but CESA finds this outcome to be unlikely given the slowed-down pace of reservations in Step 2 (which is likely to be slower in Step 3 due to the lower incentive rate) and the application fee and verification process in place by the PAs (in accordance with D.16-06-055) to ensure higher-quality projects applying for SGIP funds. Therefore, CESA recommends that Step 3 opening for the non-equity budget categories occur immediately to ensure continued market transformation once the set-aside percentage of funds is determined with the approval of the PD.

V. CONCLUSION.

CESA appreciates the opportunity to submit these comments on the PD and looks forward to working with the Commission and parties going forward in this proceeding.

Respectfully submitted,

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