July 23, 2018

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Re: Response of the California Energy Storage Alliance to Advice Letter 3245-E: San Diego Gas and Electric's Integrated Distributed Energy Resource (IDER) Incentive Pilot Request for Offer (RFO) Bidding Results Pursuant to Decision (D.) 16-12-036 and Resolution (R.) E-4889

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 Advice Letter 3245-E of San Diego Gas and Electric Company ("SDG&E"), *San Diego Gas and Electric's Integrated Distributed Energy Resource (IDER) Incentive Pilot Request for Offer (RFO) Bidding Results Pursuant to Decision (D.) 16-12-036 and Resolution (R.) E-4889* ("Advice Letter"), submitted on July 2, 2018.

[1] 8minutenergy Renewables, Able Grid Energy Solutions, Advanced Microgrid Solutions, AltaGas Services, Amber Kinetics, American Honda Motor Company, Inc., Axiom Exergy, Brenmiller Energy, Bright Energy Storage Technologies, Brookfield Renewables, Carbon Solutions Group, Centrica Business Solutions, Consolidated Edison Development, Inc., Customized Energy Solutions, Dimension Renewable Energy, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, EDF Renewable Energy, ElectrIQ Power, eMotorWerks, Inc., Enel, Energport, ENGIE, E.ON Climate & Renewables North America, esVolta, Fluence Energy, GAF, General Electric Company, Greensmith Energy, Ingersoll Rand, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Iteros, Johnson Controls, Lendlease Energy Development, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, Magnum CAES, Mercedes-Benz Energy, NantEnergy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., NRG Energy, Inc., Parker Hannifin Corporation, Pintail Power, Primus Power, Range Energy Storage Systems, Recurrent Energy, Renewable Energy Systems (RES), Sempra Renewables, Sharp Electronics Corporation, SNC Lavalin, Southwest Generation, Sovereign Energy, Stem, STOREME, Inc., Sunrun, Swell Energy, True North Venture Partners, 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.

I. BACKGROUND AND INTRODUCTION.

In the Integrated Distributed Energy Resources ("IDER") proceeding (R.14-10-003), Decision ("D.") 16-12-036 was issued on December 22, 2016 and directed each of the investor-owned utilities ("IOUs") to propose at least one and up to four projects testing the Regulatory Incentive Mechanism and Competitive Solicitation Framework for distribution deferral purposes. Subsequently, Resolution E-4889 approved the pilot solicitation of SDG&E, including the parameters of the Request for Offers ("RFO"). CESA appreciates that the SDG&E and California Public Utilities Commission ("Commission") adopted some of CESA's recommendations to better ensure a successful pilot and process.[2] With the pilot framework and solicitation parameters in place, SDG&E issued its 2018 IDER RFO on January 10, 2018 to identify and procure distributed energy resource ("DER") solutions to be installed on Circuits 303 and 783 in Carlsbad, CA to defer specific distribution capacity projects.

In reviewing SDG&E's Advice Letter, CESA was disappointed to find that SDG&E ultimately did not select any offers, especially given that this solicitation was structured as a pilot with learning being a key objective. A bigger concern is that SDG&E indicated that it only received offers from three bidders in its solicitation[3] – a poor response to a competitive solicitation that made it likely for the resulting outcome to be that no offers were selected. Ultimately, SDG&E explained that it did not receive any conforming bids that were cost-effective and thus no offers were shortlisted. As a result, SDG&E indicated that it will proceed with the traditional wires solution.

Without a robust response to the solicitation, CESA believes that competitive forces could not have provided the drivers for innovative solutions and cost competition. While not protesting the overall outcome of SDG&E's solicitation, CESA offers its response here to recommend the Commission and SDG&E conduct an evaluation of lessons learned to identify opportunities to improve upon this pilot round of IDER solicitations and to incorporate some of these learnings into the next round of distribution deferral opportunities, as the IOUs prepare their upcoming Distribution Deferral Opportunity Reports ("DDORs") in September.

[2] Comments of the California Energy Storage Alliance to Draft Resolution E-4889: Approves with Modifications Pacific Gas and Electric Company Advice Letter 5096-E, Southern California Edison Company Advice Letter 3620-E/3620-E-A/3620-E-B and San Diego Gas and Electric Company Advice Letter 3089-E, submitted on November 20, 2017. http://www.storagealliance.org/sites/default/files/Filings/2017-11-20%20CESA%27s%20Comments%20on%20IDER%20Competitive%20Solicitations%20Pilot%20Draft%20Resolution%20-%20FINAL.pdf

[3] Advice Letter, p. 2.

II. DISCUSSION.

In this response, CESA offers its recommendations on next steps for the Commission to take in light of these pilot solicitation results. In addition, as a trade association representing over 65 member-companies in the energy storage industry, CESA also provides some feedback for SDG&E's and the Commission's consideration on the solicitation process. Some of these areas of concern could be incorporated in the next round of solicitations as part of the newly established Distribution Investment Deferral Framework ("DIDF"), which has created an opportunity for regular evaluation of deferral opportunities by DER solutions.

A. The impacts on sourcing behavior of the DER regulatory incentive mechanism are unclear

Based on SDG&E's RFO results, the Commission's objective to test whether the 4% pre-tax incentive (when applied to the annual payment for the DER alternative to the deferred traditional infrastructure investment) impacted sourcing behavior was not achieved. Without any shortlisted bids, there was no opportunity to test the sourcing behavior IOU in considering whether it was in their financial interest to procure a viable and cost-effective DER alternative versus a traditional infrastructure investment. Even though D.16-12-036 did not require SDG&E to procure DER solutions in this pilot solicitation, the Commission likely gained no insight as a result of this pilot solicitation.

In CESA's view, the lack of viable DER solutions may be due to the fact that the candidate project for deferral was not one that was truly viable for DER solutions, and/or that the solicitation was structured such that it did not invite a robust response from industry. In the next round of IDER solicitations, with the appropriate adjustments to the solicitation parameters, the Commission should again test the DER regulatory incentive mechanism in identified candidate deferral projects where DER alternatives have an actual opportunity to succeed (*i.e.*, be conforming and cost-effective).

B. The distribution need requirements may have deterred DER providers from participating in this solicitation

CESA believes it is important to diagnose the cause of the lack of robust participation in this solicitation. Before even testing the regulatory incentive mechanism, SDG&E will need to identify a candidate deferral project opportunity that is truly viable for DER solutions and that, in turn, invites many DER participants in offering their products and services into the solicitation. With a range of viable DER solutions from which SDG&E can shortlist and select, the DER regulatory incentives mechanism can then be tested per the intent of D.16-12-036.

CESA has discussed this solicitation with our members who relayed their feedback and experiences with this solicitation. First, the single counterparty requirement may have deterred participation in this solicitation, especially for residential and commercial behindthe-meter ("BTM") aggregators who would have to build a large portfolio to meet the entire need identified in the solicitation. Having to identify customers and build projects to meet the full need from one counterparty was likely too high a barrier for DER providers to effectively participate in this solicitation. CESA notes that this was not a requirement for the IDER solicitations by Southern California Edison Company ("SCE") or Pacific Gas and Electric Company ("PG&E").

Second, the "firmness" required from the DER projects may have made this an unviable deferral opportunity.[4] Expecting 99.99% reliability may be unreasonable for DER alternatives as well as for traditional capital infrastructure, which are sometimes prone to outages. CESA understands that the nature of the distribution need may have required such high levels of service, but some provisions for DERs to incentivize performance with penalties and to allow for some level of "outages" may have encouraged more participation from DER providers. Additionally, it may be prudent to identify opportunities where SDG&E's existing operational solutions (*e.g.*, reconfiguring circuits) may supplement DER alternatives to ensure a very high level of reliability without requiring such near-absolute firmness in service from the DER solution.

Third, as part of this solicitation, SDG&E required an immediate and remote shutoff for all units included in any aggregation. However, this may have presented too much uncertainty to the continued operation of DER systems that also provide customer-sited services, where the resource's operation could be adjusted to strictly serve the customer during an outage or other contingency event. This was cited as being unnecessary by one member because of alternative options such as automatic transfer switches during outages.

Going forward, it may be helpful to identify deferral opportunities that present a viable path for DERs to meet the identified distribution need in some of the ways cited above. Similar to the way that timing and technical screens were adopted in the DIDF to identify candidate projects where DERs could reasonably defer traditional capital investments to make it worthwhile to conduct a competitive solicitation, it may also be reasonable to consider in more detail the perspective of DER providers in determining how and whether the identified distribution need could be met by DER solutions and in structuring the competitive solicitation accordingly.

C. SDG&E should communicate more with prospective bidders to provide more clarity and feedback on how to improve future submissions

The other possibility of this RFO result may be insufficient outreach to prospective bidders, which was highlighted as a recommendation by the Independent Evaluator ("IE"). For example, one member indicated that SDG&E did not communicate with respondents who submitted a bid but were not shortlisted after the shortlisting decisions were made,

[4] Advice Letter, Attachment A, p. 8.

causing this bidder to be unclear on why their offer was not chosen. This type of feedback is also important to bidders in understanding how they can improve their offers and bids in future IDER solicitations.

Furthermore, CESA has heard from members that the lack of customer data availability until after contracts are executed and the lack of clarity on the incrementality of their bids as being potential barriers to participating in this competitive solicitation. Improved communications and feedback and some transparency through non-disclosure agreements or highly aggregated customer data may be ways to overcome these cited barriers.

D. Fees and deposits should be reasonably balanced to invite participation in the solicitation while screening for financially viable counterparties

The $50,000 shortlist fee was cited from members as being unnecessarily high, which may have deterred prospective bidders from participating in this solicitation. While such fees and deposits may be intended to screen for financially viable counterparties, there may be a better balance to achieving this end with a reasonably lower shortlist fee. In addition, CESA also learned that SDG&E did not release the amounts required for the project development security, construction period security, and delivery term security until shortlisting, making it difficult for respondents to determine the credit requirements of a successful bid until they had already paid the $50,000 shortlist fee. Combined with the high service requirements of the distribution need, bidders may have been deterred from participating in this solicitation as a result.

III. CONCLUSION.

CESA appreciates the opportunity to submit this response to SDG&E's Advice Letter. CESA seeks to improve upon this competitive solicitation and believes it is important to take lessons learned here to incorporate into the next round of IDER solicitations to invite greater participation from DER providers that will better ensure a 'test' of utility sourcing behavior. CESA looks forward to collaborating with the Commission and SDG&E in this regard.

Respectfully submitted,

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Service list R.14-10-003