

October 25, 2018

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**Re: Response of the California Energy Storage Alliance to Advice Letter 3874-E:  
Submission of Contracts for Procurement of Energy Storage Resulting From  
the Integrated Distributed Energy Resources Incentive Pilot Solicitation**

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Dear Sir or Madam:

Pursuant to the provisions of General Order 96-B, the California Energy Storage Alliance (“CESA”)<sup>1</sup> hereby submits this response to the above-referenced Advice Letter 3874-E of Southern California Edison Company (“SCE”), *Submission of Contracts for Procurement of Energy Storage Resulting From the Integrated Distributed Energy Resources Incentive Pilot Solicitation* (“Advice Letter”), submitted on October 5, 2018.

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<sup>1</sup> 174 Power Global, 8minutenergy Renewables, Able Grid Energy Solutions, Advanced Microgrid Solutions, AltaGas Services, Amber Kinetics, American Honda Motor Company, Inc., Axiom Exergy, Boston Energy Trading & Marketing, Brenmiller Energy, Bright Energy Storage Technologies, Brookfield Renewables, Carbon Solutions Group, Centrica Business Solutions, Clean Energy Associates, 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, Form Energy, GAF, General Electric Company, Greensmith Energy, Ingersoll Rand, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Iteros, Johnson Controls, KeraCel, 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, Tenaska, Inc., True North Venture Partners, Viridity Energy, VRB Energy, WattTime, 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.

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## **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 SCE, including the parameters of the Request for Offers (“RFO”). CESA appreciates that the SCE and California Public Utilities Commission (“Commission”) adopted some of CESA’s recommendations to better ensure a successful pilot and process.<sup>2</sup> With the pilot framework and solicitation parameters in place, SCE issued its 2018 IDER RFO on January 12, 2018 to identify and procure distributed energy resource (“DER”) solutions to provide distribution capacity to defer the Eisenhower and Newbury projects.

In reviewing SCE’s Advice Letter, CESA supports SCE’s selection of 9.5 MW of in-front-of-the-meter (“IFOM”) energy storage projects to defer the Eisenhower and Newbury projects. CESA commends SCE for conducting a fair and successful solicitation that seeks to demonstrate the planning, procurement, and contracting process for third-party DERs to cost-effectively defer traditional capital investments and upgrades. In this response, CESA recommends that the Commission approve the proposed IFOM energy storage projects and seeks to provide helpful feedback to incorporate into future rounds of IDER RFOs.

## **II. DISCUSSION.**

CESA agrees with the Independent Evaluator (“IE”) that SCE conducted a fair, reasonable, and prudent solicitation that facilitated a robust market response and ultimately led to successful procurement of DER projects to demonstrate the capabilities of DERs to defer traditional capital investment projects and to do so cost-effectively for ratepayer benefit. The Commission should approve the proposed IFOM energy storage projects because the selected offers are cost-effective relative to the traditional capital investment project, are within the established cost-effectiveness cap,<sup>3</sup> and prevailed through a robust and competitive RFO,<sup>4</sup> reflecting how the selected offers were also cost competitive.

Below, CESA provides our assessment of the solicitation and the IE report, as well as our feedback on considerations for future IDER RFOs to improve upon the success of this inaugural round of IDER RFOs for distribution deferral.

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<sup>2</sup> *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.

<sup>3</sup> Advice Letter, p. 23.

<sup>4</sup> Advice Letter, Appendix D: Independent Evaluator Report, p. 6.

**A. SCE supported DER bidders by providing detailed customer demographic information and hourly load profiles**

CESA supports and appreciates SCE’s provision of the relevant and appropriate customer demographic information and forecasted hourly profiles by year, season for required demand reduction, and the estimated frequency for demand reduction occurrences by month and year.<sup>5</sup> This information is critical for both IFOM and behind-the-meter (“BTM”) DER bidders to smartly develop offers that more precisely and efficiently meet the identified distribution grid need. CESA encourages SCE and other IOUs to continue with this best practice.

**B. SCE prudently applies the principles for multiple-use applications that should be considered in other and future IDER RFOs**

CESA strongly supports and appreciates SCE’s approach in this solicitation to leverage multiple-use applications (“MUA”) by authorizing DERs to be valued for providing both RA capacity and distribution capacity.<sup>6</sup> In particular, CESA agrees with how SCE smartly applied the MUA principles as adopted in D.18-01-003 by considering the time differentiation of two reliability services and by developing a reasonable approach to assess credits and compensation in instances where the two reliability services align in the timing and frequency of the need. SCE states in its advice letter:<sup>7</sup>

“However, an important distinction between the two reliability services is that the deferral need is currently defined as a daily reliability service whereas RA is a monthly reliability service. It is SCE’s view that excluding a DER from a monthly reliability services in order to meet a limited number of calls of a daily reliability service does not encourage the implementation of DERs. Accordingly, SCE believes a DER should receive some, if not full, RA credit during deferral months. The RA credit of a DER should be correlated to the expected deferral need. For example, assuming the deferral need is coincident with the RA assessment hours, a DER that is expected to respond to frequent distribution events should receive less RA credit than a DER needing to respond to one distribution event a year. Therefore, SCE valued IDER RFO offers using both: (1) the strict interpretation of D.18-01-003 assigning no RA value to offers in the months in which there is an expected deferral need; and (2) SCE’s view of RA capacity during the deferral periods.”

CESA supports this approach at this time and encourages SCE and other IOUs to take a similar approach to applying MUA principles. A granular consideration of the

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<sup>5</sup> Advice Letter, pp. 11, 14.

<sup>6</sup> *Ibid*, pp. 4, 15.

<sup>7</sup> *Ibid*, pp. 18-19.

timing, frequency, and nature of various grid services is important to cost-effectively utilizing DERs such as energy storage.

**C. SCE prudently allows for installed capacity to increase over time and should allow for such phased deployment for all DER types**

CESA supports SCE’s procurement and deployment approach to smartly increase installed capacity over time from the initial delivery date.<sup>8</sup> Depending on the nature of the identified distribution capacity need, this approach may be appropriate and prudent if the need is demonstrated to grow over time during the distribution planning period. By allowing for this phased deployment approach, CESA believes that bidders may be able to more cost-effectively deploy DERs by managing supply chains and by avoiding over-procurement in earlier years, while taking advantage of capital cost declines over time. By contrast, full DER procurement by the initial delivery date for the full capacity need that will not materialize until later years of the distribution planning period may result in higher development costs that do not ‘right-size’ the true capacity need over time. CESA thus supports SCE’s approach and agrees with the IE’s recommendation that *pro forma* contracts should allow for bidders to propose annual increases in capacity over time for all types of DER types.<sup>9</sup>

**D. More guidance on siting DERs may be helpful to ensure a streamlined competitive solicitation process going forward**

CESA supports SCE’s intent to be as flexible and technology neutral as possible by allowing bidders to interconnect anywhere on the identified circuits of need, but the Advice Letter suggests that more location guidance may have been needed to avoid delay in the procurement and contracting process due to power flow implications for siting at certain locations.<sup>10</sup> Since the siting of IFOM projects impacts power flows, CESA recommends that SCE consider more detailed siting guidance for bidders in the next rounds of IDER RFOs to ensure that the competitive solicitation process is as streamlined as possible, which SCE and other IOUs have discussed as being a key objective of the Distribution Investment Deferral Framework (“DIDF”).

Given that the DIDF will be an annual process with only four months or so to procure and contract for DER projects, siting guidance may help avoid any delays going forward. Especially for substation and multi-circuit deferral projects, CESA members have expressed the need for siting guidance to help them understand how to efficiently and optimally develop projects to precisely meet the identified distribution capacity need.

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<sup>8</sup> *Ibid*, p. 4.

<sup>9</sup> Advice Letter, Appendix D, p. 15.

<sup>10</sup> Advice Letter, p. 13.

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**E. The Desert Outpost Substation Project highlights the need to identify candidate projects that minimize forecast uncertainty**

In the Advice Letter, SCE discussed how its updated distribution system forecast resulted in a change in the forecasted need for distribution upgrades at the Desert Outpost Substation, in turn delaying the ‘need’ for the winning DER project for that location until 2023.<sup>11</sup> CESA supports SCE’s decision to not pursue the Desert Outpost Substation Project at this time, given that it might be a less pressing use of ratepayer money to pay for a deferral project that is no longer needed, but this experience also highlights the importance of improving forecasting methods and of the Distribution Planning Advisory Group (“DPAG”) process to shortlist and identify truly viable deferral candidate projects that will be needed with reasonable certainty. Given the time and resources involved in a competitive solicitation process and the opportunity costs of constrained developers in pursuing different RFOs and RFPs, developers may experience frustration with fruitlessly competing in solicitations for needs that are no longer needed. This outcome could in turn lower participation, which would not be ideal. CESA understands the challenges in forecasting, but SCE and DPAG participants should minimize these uncertainties as much as possible. CESA plans to continue active participation in the DPAG to support these efforts.

**F. Processes for DERs in contingency plans should be considered further**

CESA supports SCE including DERs in its contingency plans, where it plans to deploy DERs if contracted and approved by the Commission at least 12 months before the forecasted need date.<sup>12</sup> Given the goal of streamlining the competitive solicitation process, some process for pre-approving DER contingency projects should be considered in the next round of IDER RFOs. The usual four months for contracting plus additional months for Commission approval may create some challenges to deploying DERs in time as part of contingency planning.

**G. Qualification for RA should be an option rather than an eligibility criteria**

While supportive of SCE’s consideration of how DERs can provide both RA and distribution deferral services, CESA has some concerns about requiring or incentivizing DERs to qualify for RA capacity, which for certain DER types may present barriers. One of the IE’s recommendations was to have SCE emphasize to offerers in future IDER RFOs to strive to meet RA counting requirements.<sup>13</sup> However, the challenge with requiring or encouraging this is that not all DERs have RA counting methodologies (*e.g.*, BTM solar-plus-storage), and some BTM DERs, such as BTM storage providing demand response, may face certain added capital and market integration costs to provide RA capacity. Since

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<sup>11</sup> Advice Letter, p. 14 and Appendix D, p. 5.

<sup>12</sup> Advice Letter, pp. 15-16.

<sup>13</sup> Advice Letter, Appendix D, pp. 10, 16.

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the distribution deferral and RA capacity are different reliability services, it may be unnecessary to require such combination of services, though CESA supports the option of DERs to propose providing both services in their offers and to have those combined benefits valued accordingly. To ensure robust market participation of many participants and DER technology types, CESA recommends that SCE consider optionality for bidders to provide RA capacity when competing in future IDER RFOs to provide the primary distribution capacity service.

#### **H. SCE should discuss how incrementality was assessed in this IDER RFO**

Little to no detail was provided on how SCE assessed the incrementality of bids in this IDER RFO, except to point to how they used their Commission-approved matrix.<sup>14</sup> To support lessons learned and the feedback loop as required by D.16-12-036, CESA requests that SCE provide some details on how incrementality assessments were conducted in accordance with their matrix. This will support future learnings and identify areas of improvement going forward.

### **III. CONCLUSION.**

CESA appreciates the opportunity to submit this response to SCE's Advice Letter and supports SCE's IDER RFO results. Per the requirements of D.16-12-036, CESA seeks to improve upon this competitive solicitation and to take lessons learned here to incorporate into the next round of IDER solicitations. CESA looks forward to collaborating with the Commission and SCE in this regard.

Respectfully submitted,



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<sup>14</sup> Advice Letter, p. 12.