



May 6, 2019

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Re: Response of the California Energy Storage Alliance to Advice Letter No. 5455 of Southern California Gas Company, Advice 4089-G/5524-E of Pacific Gas and Electric Company, Advice 3989-E of Southern California Edison Company, and Advice 101-E of Center for Sustainable Energy

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 letters, *Proposed Updates to Self-Generation Incentive Program (SGIP) Handbook California Manufacturer Adder Methodology in Compliance with Ordering Paragraph 2 of Decision (D.)19-02-006* (“Advice Letter”), submitted by the Joint Program Administrators (“PAs”) on April 15, 2019.

¹ 174 Power Global, 8minutenergy Renewables, Able Grid Energy Solutions, Advanced Microgrid Solutions, Aggreko, Alligant Scientific, LLC, AltaGas Services, Amber Kinetics, Ameresco, American Honda Motor Company, Inc., Avangrid Renewables, Axiom Exergy, Better Energies, Boston Energy Trading & Marketing, Brenmiller Energy, Bright Energy Storage Technologies, Brookfield Renewables, Carbon Solutions Group, Clean Energy Associates, ConEd Battery Development, Customized Energy Solutions, Dimension Renewable Energy, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, EDF Renewable Energy, eMotorWerks, Inc., Enel X North America, Energport, Engie Storage, E.ON Climate & Renewables North America, esVolta, Fluence, Form Energy, General Electric Company, Greensmith Energy, Gridwiz Inc., Hecate Grid LLC, Ingersoll Rand, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Johnson Controls, Lendlease Energy Development, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Energy Solutions, LS Power Development, LLC, Magnum CAES, Mercedes-Benz Energy, NantEnergy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., Nuvve, Pattern Energy, Pintail Power, Primus Power, Polyjoule, Quidnet Energy, Range Energy Storage Systems, Recurrent Energy, SNC-Lavalin, Southwest Generation, Sovereign Energy, Stem, STOREME, Inc., Sunrun, Swell Energy, Tenaska, Inc., Tesla, True North Venture Partners, Viridity Energy, VRB Energy, WattTime, and Wellhead Electric. 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. **BACKGROUND & INTRODUCTION.**

The Joint PAs filed a Petition for Modification (“PFM”) of Decision (“D.”) 16-06-055 on October 17, 2018 to modify the method for determining the eligibility of a Self-Generation Incentive Program (“SGIP”) project to receive an incremental 20% incentive adder for projects “manufactured” in California. The Commission approved the requests made in the PFM in D.19-02-006 to make the following Conclusions of Law:

- “The definition of “Energy Storage Medium” (one of the three components of the energy storage system considered when determining eligibility for the California Manufacturer Adder incentive) in the SGIP Handbook should be clarified to state that the term includes not just battery cells, but also the wiring, racks, and other equipment that together form an operable battery unit.” [Conclusion of Law 4, D.19-02-006]
- “By defining “Energy Storage Medium” as set forth in the preceding paragraph, a module that is manufactured in California, even if it includes a battery cell manufactured elsewhere, should be eligible for the California Manufacturer Adder incentive if the other eligibility requirements for the incentive are met.” [Conclusion of Law 5, D.19-02-006]

In comments to the PFM and the Proposed Decision on the PFM, CESA expressed support for the proposed and adopted modifications. CESA continues to support the various SGIP program goals, including for the additional incentive for SGIP-funded projects that provide incremental benefit for equipment components that are made in California. It is not only important to drive job creation for the development and installation of SGIP projects in California but also, where appropriate, to foster job creation related to manufacturing of components and equipment that go into SGIP projects.

CESA thus appreciates the PAs continued desire to improve upon the SGIP and for charting a reasonable pathway for allowing one or more California manufacturers to meet the 50% minimum threshold for receiving the extra 20% California adder. The modifications indeed better served the Commission’s stated goal in D.16-06-055 to “ensure that the majority of value creation occurs in California.”

In accordance with Ordering Paragraphs 1 and 2 and the Conclusions of Law of D.19-02-006, the Joint PAs submitted an Advice Letter that updated the SGIP Handbook to reflect in Section 3.3.3 Footnote 30 as follows:²

“Just as with the individual manufacturer cap ... for purposes of determining eligibility for the California manufacturer adder for a given project, the program administrators should consider only the equipment of types 4, 5, 14, and 18 (see the 2015 SGIP Handbook Section 3.3.3). ~~The entity supplying the largest amount of value of this capital equipment is the one whose California credentials will be considered in each project.~~ If at least 50% of the value of ~~that entity’s~~ *the eligible* capital equipment in the project is deemed to have been added in a California process, then ~~that~~ *the* project should receive the 20% California manufacturer bonus.”

² D.19-02-006 at p. 12.

In addition, in accordance with Conclusions of Law 4 and 5, the PAs defined “energy storage medium” and modified the methodology for determining California supplier adder eligibility – *i.e.*, from relying on the single equipment type with the largest cost percentage to determining eligibility based on sum of the value of capital equipment for a project. In addition, the PAs detailed how it will determine eligibility based on the sourcing and costs of the energy storage medium sub-equipment categories:³

“Energy Storage Medium Costs must detail the cost of the battery cells separate from other components. Where the battery cells are manufactured elsewhere and imported into California, the cost of such battery cells cannot exceed 50% of the total costs for the Energy Storage Medium for this category to be considered the California Manufacturer incentive adder.”

However, CESA has a different interpretation of the modifications that were adopted in D.19-02-006 than the modifications and redlines to the SGIP Handbook included in the Joint PA Advice Letter. Specifically, while the PAs better ensured that the majority of value creation occurs in California by removing the single equipment type methodology, this type of methodology is still maintained and applied to the energy storage medium. CESA thus respectfully requests that the PAs modify this requirement. We detail our interpretation of the decision and our proposed modifications below.

II. DISCUSSION.

A. CESA interprets D.19-02-006 as directing a majority-value approach for total value of all capital equipment, which also aligns with the Commission’s stated goals in D.16-06-055

CESA reiterates its appreciation for the PAs efforts in refining California supplier adder eligibility rules to better align with the Commission’s stated goals in D.16-06-055 while also recognizing that supply chain sourcing is often complex in reality, where granular accounting for in-state value creation for energy storage project equipment can be administratively burdensome and may even lead to false precision. However, the PFM recognized that the previous single equipment type requirement and single manufacturer rules were too restrictive and was not consistent with the statute, such that an incrementally more granular approach would be reasonable and appropriate.

As CESA reads it, D.19-02-006 recognized the value of in-state manufacturing of all of the various components that go into an energy storage project, even if the individual battery cell is not manufactured in California.⁴ In other words, there is no reason to place greater weight to battery cell manufacturing in California compared to the manufacturing of wiring, racks, inverters, controllers, thermal management systems, or other equipment within California. So long as the majority of the project value is manufactured in California, a project

³ Joint PA Advice Letter Attachment at p. 26.

⁴ D.19-02-006 at p. 7.

should qualify for the incentive adder, which encourages greater in-state manufacturing in general.

For these reasons, CESA agrees with the PAs’ proposed modifications to remove the single equipment type rule and single manufacturer requirement, pursuant to D.19-02-006 modifying Footnote 30 in D.16-06-055.⁵ As such, the PAs are utilizing the new methodology of allowing multiple manufacturers to count towards the “California Manufacturer Adder” in the Inverter and Balance of System equipment type category. However, for the Energy Storage Medium equipment type category, the PAs appear to maintain the D.16-06-055 methodology where “the entity supplying the largest amount of value of this capital equipment is the one whose California credentials will be considered in each project.”⁶ CESA assumes that this is due to the PAs’ interpretation of “eligible capital equipment” as modified in D.19-02-006 to mean that there are only three eligible capital equipment type categories – Energy Storage Medium, Inverter, and Balance of System – such that the supplier within the Energy Storage Medium category providing the majority value determines incentive adder eligibility.

CESA has a different view and interpretation. With D.19-02-006 directing the PAs to break out the Energy Storage Medium definition, CESA believes that the “eligible capital equipment” is intended to take a total summed value approach for, effectively, four equipment categories for Battery Cells, Other Storage Medium Equipment, Inverter, and Balance of System. D.19-02-006 could be clarified in this regard, specifically around the use of certain terminology such as “equipment” that has a program-specific definition and may be used interchangeably with its general definition of equipment, but CESA believes it is reasonable to take this total summed value approach for the four categories based on D.19-02-006 stating that the “California Manufacturer Adder is intended to benefit California-based manufacturing of equipment serving the green economy.”⁷

To illustrate, the PAs discussed the hypothetical project cost breakdown example below in its Advice Letter:⁸

Equipment Type	Description	Manufacturer	Cost	Location Manufactured	Approved CA Manufacturer?
Advanced lithium-ion batteries Energy Storage Medium	Advanced lithium ion cells	ABC Company	\$12,000	111 Fake St., Los Angeles CA 90011 South Korea	Yes No
	Battery rack and wiring components	Tiger Battery Company	\$2,000	2222 Pine Ave., Los Angeles CA	
Bidirectional AC-DC Inverter	Bi-Directional AC-DC Inverter	Lizard Inverters Company	\$3,000	333 Jon Street, Phoenix, AZ 81234 San Diego, CA 93333	No Yes
Operating Controller Balance of System	Operating controller, enclosure, thermal management and fire suppression	Nick Controllers 123 Systems Company	\$210,000	444 Real St., San Francisco, CA 92222	Yes

⁵ D.19-02-006 at pp. 7-8.

⁶ D.16-06-055 at p. 41, Footnote 30

⁷ D.19-02-006 Finding of Fact 2.

⁸ Joint PA Advice Letter Attachment at p. 27.

CESA believes that the above example project should qualify for the 20% California Manufacturer Adder. The total system cost of the above example project is \$27,000, of which \$15,000 or 55% is manufactured within the State of California when looking at the four equipment types. However, because the battery cell is manufactured outside of California and represents majority value of the Energy Storage Medium category, the PAs' proposed methodology only recognizes the in-state value of the Inverter and Balance of System manufacturing within California (*i.e.*, representing only 48% of the project) and thus disqualifies this project from the incentive adder. In effect, the methodology ignores the in-state manufacturing value of the battery racking and wiring components (*i.e.*, \$2,000 in this example) and unfortunately puts a disproportionate weight on the Energy Storage Medium category to determine whether the project will qualify. Importantly, the proposed methodology does not align with the Commission's stated goal of ensuring that the majority of value creation occurs in California, which, in the case of the example above, is indeed the case.

Finally, CESA believes that the total summed value approach for four equipment categories would not present administrative burdens in excess of what was already directed in D.19-02-006. The PAs will already collect manufacturer information and cost data on the four equipment categories, so no new additional work is being requested.⁹ Rather, CESA's recommendation is to adjust how "eligible capital equipment" is defined in determining eligibility for the California Manufacturer Adder.

Given all the reasons stated above, CESA thus recommends that the PAs recognize four equipment types (Battery Cell, Other Storage Medium Equipment, Inverter, and Balance of System) in determining incentive adder eligibility. Furthermore, CESA recommends that the PAs modify the proposed redlines to the SGIP Handbook as follows as well as to adjust the hypothetical example project calculations and explanations accordingly:

~~"Energy Storage Medium Costs must detail the cost of the battery cells separate from other components. Where the battery cells are manufactured elsewhere and imported into California, the cost of such battery cells cannot exceed 50% of the total costs for the Energy Storage Medium for this category to be considered the California Manufacturer incentive adder."~~

III. CONCLUSION.

CESA appreciates the opportunity to submit this response to the Joint PA Advice Letter and hopes that our feedback will be taken into consideration. CESA looks forward to continuing collaborating with the Commission and the Joint PAs.

⁹ CESA has received feedback from some members that the battery cell cost information is often proprietary and market sensitive. With this information being separated out, CESA recommends that the PAs ensure that such information is not disclosed publicly.

May 6, 2019
Page 6 of 6

Respectfully submitted,



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