

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Create a  
Consistent Regulatory Framework for the  
Guidance, Planning, and Evaluation of Integrated  
Distributed Energy Resources.

Rulemaking 14-10-003  
(Filed October 2, 2014)

**RESPONSE OF THE CALIFORNIA ENERGY STORAGE ALLIANCE  
TO THE ADMINISTRATIVE LAW JUDGE'S RULING DIRECTING RESPONSES TO  
POST MARCH 4-5, 2019 WORKSHOP QUESTIONS**

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In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”)<sup>1</sup> hereby submits these responses to the *Administrative Law Judge’s Ruling Directing Responses to Post March 4-5, 2019 Workshop Questions* (“Ruling”), filed by Administrative Law Judge (“ALJ”) Kelly A. Hymes on April 15, 2019.

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<sup>1</sup> 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, Energy Vault, Engie Storage, E.ON Climate & Renewables North America, esVolta, Fluence, Form Energy, General Electric Company, Greensmith Energy, Gridwiz Inc., Hecate Grid LLC, Highview Power, Ingersoll Rand, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Lendlease Energy Development, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Energy Solutions, LS Power Development, LLC, Magnum CAES, NantEnergy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., Nuvve, Pattern Energy, Pintail Power, Plus Power, Primus Power, PolyJoule, Quidnet Energy, Range Energy Storage Systems, Recurrent Energy, RES Americas, SNC-Lavalin, Soltage, Southwest Generation, 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. INTRODUCTION.**

CESA appreciates the Commission's leadership in facilitating and spearheading the consideration of tariff mechanisms to source and procure distributed energy resources ("DERs") that defer distribution capital investments and for inviting stakeholders to propose tariff ideas. A number of parties proposed interesting and innovative ideas. The workshop subsequently held by the Commission provided parties with an opportunity to learn about and provide feedback on their ideas, as well as to solicit feedback from others on the strengths and improvement areas on CESA's proposal. CESA values the importance of the Distribution Investment Deferral Framework ("DIDF") adopted in the Integrated Distributed Energy Resource ("IDER") proceeding (R.14-10-003) and supports the consideration of various tariff proposal ideas that address a critical gap in the DIDF. In particular, tariffs have the potential to reduce the time and costs to DER providers and to provide the flexibility to address emerging and uncertain needs.

## **II. THE COMMISSION SHOULD REVISE THE DESIGN PRINCIPLES AND INCORPORATE SOME OF THE SUGGESTED MODIFICATIONS.**

CESA is generally supportive of the design principles for DER tariff proposals but proposed modifications in our February 15, 2019 comments. Our proposed modifications focus on certain modified language to ensure that the standard of review for tariff mechanisms and the resulting DERs procured under these mechanisms are reasonable and advance the underlying key goal of distribution services around ensuring grid reliability while providing economic savings to the ratepayers. For example, while reducing greenhouse gas ("GHG") emissions is an important state policy goal, it is not the primary goal of traditional distribution investments. Rather, DER alternatives should be assessed and selected based on how effectively and cost-effectively they meet the distribution grid need, though efforts could be made to consider how these DER alternatives could also reasonably reduce GHG emissions given their potential to do so. CESA

also offered modifications to the design principles to establish a cost-reducing (rather than cost-minimizing standard), to add reasonableness assessments to how technology neutrality principles are applied, and to consider how existing DERs (not just new DERs) could be considered for sourcing and procurement through tariffs, among other proposed modifications. Prior to adopting any of the proposed tariffs at hand, CESA recommends a discussion of the design principles to move toward a consensus and/or Commission-determined set of design principles to apply to the assessment and refinement of the proposal ideas.

**III. OVER-PROCUREMENT RISKS SHOULD BE MITIGATED BUT THE COMMISSION SHOULD NOT STRIVE TO ELIMINATE THESE RISKS WHEN ASSESSING THE PROPOSED TARIFFS.**

One of the key themes that arose out of the workshops was the concern about over-procurement and under-procurement risks tied to tariff proposals – *e.g.*, Pacific Gas and Electric Company (“PG&E”) advocated for the principle of “right place, right time, and right certainty”. On the one hand, under-procurement risks should be avoided wherever and whenever possible since they present grid reliability and safety scenarios – *i.e.*, insufficient distribution capacity could create overloads that damage equipment, loss of power, create fire risks, etc. In the DIDF, the investor-owned utilities (“IOUs”) manage this risk through timing screens and contingency planning with other DERs and traditional ‘wires’ solutions. However, over-procurement risks are different in nature in that they represent economic cost-based risk that should be mitigated and contained but reasonably expected to occur to some degree due to uncertainty related to the forecast and resource deployments. In the generation world, the Commission studies for and establishes a planning reserve margin. Similarly, for distribution planning purposes, the IOUs size capital investments and procure for DER alternatives with some level of margin to account for uncertainties. Likewise, for DER tariffs, CESA believes that some level of over-procurement and

over-payment should be tolerated but mitigated in the interest of ratepayer costs. Hindsight is 20-20, and so striving to eliminate these risks for tariffs would not be comparable to how the Commission and state does resource planning elsewhere. This context should be factored into the Commission's decision on whether to adopt and/or pilot tariff proposals and over-procurement risk mitigation should not be comparably different or restrictive to learning from pilots. In fact, adoption and uptake of DIDF tariffs is likely one important area of learning to be gleaned from the pilots.

**IV. WITHOUT FURTHER CLARITY OR REFINEMENT ON INCREMENTALITY DEFINITIONS AND METHODOLOGIES FROM THE COMMISSION, IT IS DIFFICULT TO ASSESS WHETHER THE PROPOSED TARIFFS ADEQUATELY ADDRESS INCREMENTALITY.**

Incrementality is a challenging issue, even as all parties are likely to agree in principle that grid services should not be double counted or compensated. CESA understands that incrementality principles were adopted in Decision (“D.”) 16-12-036 and incrementality methodologies were adopted with the issuance of Resolution E-4889, but there appears to be a divide between the IOUs and market participants on the adopted methodology and how it is applied in practice in competitive solicitations and in dual participation in programs.<sup>2</sup> Refinement of these methodologies are needed to more effectively assess the tariff proposals, considering incrementality is a key design principle.

Additionally, refined incrementality definitions and methodologies may be able to address the various risks of tariff proposals. For example, CESA sees ratepayer advantages in leveraging existing programs to provide incremental distribution grid services, where incentives or

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<sup>2</sup> See, for example, *Compliance Report of Southern California Edison Company (U 338-E), Pacific Gas and Electric Company (U 39-E) and San Diego Gas and Electric Company (U 902-E) on Behalf of the Multiple-Use Application Working Group* filed in R.15-03-011 on August 9, 2018 at pp. 40-80. <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M233/K836/233836260.PDF>

compensation provided by other programs (*e.g.*, Self-Generation Incentive Program [“SGIP”] in the case of energy storage) support the capital deployment of DERs and reduce or possibly eliminate the need for upfront payments from DIDF projects to support the capital deployment of DERs. For tariff-based sourcing mechanisms, the IOUs want greater certainty that DERs will materialize and be committed to address the full distribution grid need by establishing a short subscription period and/or by withholding upfront capital payments until the tariff is fully or sufficiently subscribed. However, as will be discussed in our responses to the questions posed in the Ruling below, short subscription periods do not address time-related risk factors faced by DER providers and conditional upfront payments would not incentivize new-build DER projects. By leveraging existing programs and assessing incrementality of existing and new DER projects appropriately to support DER deployment, over-procurement and over-payment risks of having to source both DERs and traditional capital investments for identified distribution grid needs may be more effectively addressed.

**V. RESPONSES TO POST-WORKSHOP QUESTIONS.**

**Question 1: Explain in detail whether you think the Commission should adopt a tariff for distributed energy resources.**

Yes, CESA recommends that the Commission adopt a tariff for DERs given certain gaps, challenges, and limitations of the competitive solicitation process to procure DERs to defer traditional distribution investment projects. If structured correctly, tariffs have the advantage of providing standardized upfront contract terms, provisions, and compensation while providing DER providers with sufficient time to acquire customers and develop projects. However, while competitive solicitations provide more right sizing and better immediate certainty that DERs can be committed to address the identified distribution need, they can be market limiting in some ways

by not inviting the most robust market participation. In the first round of DIDF Request for Offers (“RFO”), for example, no behind-the-meter (“BTM”) resources were procured for the identified distribution services and a small number of bids were received from BTM resources.<sup>3</sup> Even in front-of-the-meter (“IFOM”) developers within CESA have indicated that they have decided to either not pursue RFO opportunities or have faced difficulties given the amount of time made available to respond to RFOs, which only afford bidders with approximately one month to prepare bids. This creates a level of risk placed on bidders that may deter their RFO participation.

Improvements to the DIDF process address some of these challenges – *e.g.*, ensuring timely launch of RFOs and more open participation in the Distribution Planning Advisory Group (“DPAG”) to preview potential upcoming opportunities – but a tariff window with a reasonably long subscription period would invite greater participation from DER providers, particularly from those providing BTM resources. Fundamentally, CESA views a tariff mechanism as potentially addressing the core issue of there not being sufficient time for DER providers to assess the marketplace, acquire customers, develop projects (*e.g.*, secure site control, permits), and prepare bids accordingly. As a result, DER providers would improve their bids and have more informed bids – *i.e.*, have greater certainty into their capabilities and potential commitments to provide distribution grid services.

**Question 2: If the Commission determines that it should adopt a distributed energy resources tariff, should the tariff focus solely on distribution deferral services (energy, capacity, and voltage/Volt Ampere Reactive (VAR))? If the tariff should focus solely on**

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<sup>3</sup> In SCE’s 2018 IDER RFO, only 37 total conforming offers were received from energy efficiency and demand response resources, compared to 124 conforming offers from IFOM resources. See *Distribution Planning Advisory Group – Meeting 2* presentation on October 11, 2018 at p. 15. In SDG&E’s 2018 IDER RFO, two out of the total three bids were for BTM solar-plus-storage resources, which may point to a broader issue of their RFO products. See SDG&E’s Advice Letter 3245-E submitted on July 2, 2018 at p. 2. For PG&E’s 2018 IDER RFO, CESA was not able to locate any information on the robustness of the response to the RFO by resource type in PG&E’s Advice Letter 5531-E submitted on April 25, 2019.

**distribution deferral, should the tariff have synergy with the distribution investment deferral framework and how? Should a distributed energy resources tariff be a supplement to the current solicitation process or replace it? Should the tariff be updated or refined over time and why?**

Yes, if the Commission determines that it should adopt a DER tariff, CESA recommends a short-term focus on distribution deferral services in order to leverage what is already established in the DIDF process. As a result, tariff pilots can be immediately tested. Questions around the services being provided, cost recovery, and the ‘pool of money’ to pay for DERs providing distribution grid services are clearer at this time by leveraging the DIDF and deferring specific planned investments.

CESA also recommends that the Commission leverage and supplement, not replace, the DIDF process in pursuing a DER tariff. Otherwise, CESA is unclear on how the cost-effectiveness and the effectiveness in delivering a specified distribution grid need would be assessed for DER alternatives without the DIDF. The Distribution Deferral Opportunity Report (“DDOR”) provides detailed information on the timing, frequency, duration, and magnitude of the distribution grid need as well as the unit costs and locational net benefits of the planned investment intended to mitigate the need. For RFO contracts and tariffs alike, this information informs the performance expectations and payment terms. Broadly, CESA envisions the DIDF remaining in place as is, with tariffs providing the IOUs with an additional sourcing option. As discussed in our response to Question 6, there may be specific types of distribution grid needs that are better suited for tariffs as a sourcing mechanism, and other situations where an RFO is the better sourcing mechanism.

However, in the long-term, CESA recommends investigating and exploring whether DER tariffs could be developed that are not tied to specific distribution deferral projects in the near-term planning horizon. As such, CESA appreciates the Regional DER Tariff proposal from the Solar Energy Industries Association (“SEIA”) and Vote Solar that is focused on long-term benefits of



DERs rather than deferring specific projects. Even though this proposal does not seem implementable as a near-term tariff pilot since it does not directly tie into the DIDF process, this type of proposal is exactly what should be considered and developed in the next phase of the IDER proceeding. Tariffs have the flexibility to be applied to longer-term distribution grid needs that emerge over time.

Specifically, one potential avenue to explore DER tariffs that are not specific to any deferral project is to explore connections and synergies with the Grid Modernization Framework (“GMF”) adopted by D.18-03-023, which provides guidance on grid modernization investments that inform future General Rate Case (“GRC”) proceedings. D.18-03-023 authorized the IOUs to submit Grid Modernization Plans with a 10-year vision statement to provide long-term context. In addition, this decision established a classification framework for grid modernization investments that fall into either safety/reliability or DER integration types of investments, among other things. A tariff that is linked to the longer-term focus of the GMF could address distribution grid needs as they emerge and have a flexible pool of funds for compensating DERs for distribution grid services authorized through the GRC process. Granted, some changes to the GMF, which focuses on capital investments and technologies, may be needed to accommodate sourcing of DER services to address safety, reliability, and DER integration issues. Furthermore, by not tying the tariff mechanism to a specific project, “cost reasonableness” would be an issue that would need to be vetted. Regardless, CESA believes that potential GMF linkages to a long-term and general tariff could be explored in the next phase of the proceeding.

**Question 3: If the Commission determines that it should adopt a distributed energy resources tariff, explain whether the Commission should adopt more than one tariff proposal for distributed energy resources.**

Whether to adopt more than one tariff proposal will likely depend on the insights revealed in the tariff pilots (see our response to Question 5) and the nature of the distribution grid need. Feasibly, CESA believes that multiple tariffs could be adopted to address different types of needs, but the best sourcing mechanism should be used for the identified distribution grid need. For example, large, complex, and very location-specific distribution capacity needs may be best suited for an RFO approach given the more immediate market response provided and the scale at which DERs could materialize to address the issue (*e.g.*, IFOM energy storage projects). By contrast, smaller and gradual distribution capacity needs could be better addressed through tariff mechanisms that allow for longer subscription periods, which also may not be worthwhile for large-scale developers to pursue. Additionally, if the Commission considers not only project-specific distribution grid needs but more general distribution grid needs, CESA could see different tariff mechanisms adopted for such use cases and needs.

**Question 4: If the Commission determines that it should adopt a distributed energy resources tariff, explain whether the Commission should take an initial step of piloting a tariff proposal for distributed energy resources.**

Yes, CESA believes that it is reasonable to first pilot a tariff proposal for distribution grid services but also have an evaluation framework and potential pathway for scaling or more broadly adopting the tariff as a ‘mainstream’ sourcing mechanism. Clear evaluation plan and metrics are needed to determine when there is success, where a tariff could be improved, and at what point, the Commission can try to scale the tariff mechanism. Sufficient time needs to be allowed for the pilot program to demonstrate success or failure as well.

**Question 5: If the Commission determines it should take the initial step of piloting a tariff proposal for distributed energy resources, explain whether the Commission should pilot more than one tariff proposal.**

Yes, CESA recommends that the Commission take the initial step of piloting more than one but no more than three tariff proposal ideas. Each IOU runs independent DIDF processes and could potentially run three different tariff pilots to more expeditiously assess a range of tariff proposals. At the same time, CESA understands that the number of tariffs that could be piloted is dependent on the nature of the identified distribution grid need, as some tariff proposals may only lend itself to specific types of distribution needs. Additionally, CESA is cognizant of the administrative costs and burdens of implementing and then evaluating multiple tariff pilots. CESA therefore finds it reasonable to identify a shortlist of up to three tariff proposals that could be piloted by each IOU.

**Question 6: Which one or more of the seven tariff proposals presented at the workshop would you support either as proposed or with modifications and why? If a proposal requires modifications, describe those modifications. Explain how the proposal meets the design principles, meets grid needs, manages risks, addresses incrementality, and ensures that operational requirements are met. Explain whether you would support the proposal as a tariff or only as a tariff pilot.**

CESA observes a number of similarities between the proposals of CESA, California Solar and Storage Association (“CALSSA”), and Sunrun, as well as the DER Riders Tariff proposal by Southern California Edison Company (“SCE”). Each tariff proposal is integrated to varying degrees with the DIDF, structured with payments split between upfront and ongoing payments over multiple years, sets the total value of DERs at less than the deferral value, and establishes a subscription period and cap. CESA is generally supportive of these proposal concepts and looks forward to working with these stakeholders to refine their proposal ideas if the Commission decides to further pursue them via pilots. One or more of these tariffs warrant consideration for a pilot, with modifications.

CESA's strongest preference, however, is for the Commission to pursue CESA's Distribution and Hosting Capacity ("DHC") Tariff proposal idea, which incorporates some elements of other parties' proposals and refines the tariff design based on stakeholder feedback at the workshop. Furthermore, in the following sections, CESA provides some comment on other parties' proposals that we generally support in concept but likely requires certain modifications and/or clarifications.

#### **A. CESA's Distribution & Hosting Capacity Tariff**

CESA proposes to modify its DHC Tariff proposal with some key modifications taking into account feedback received at the workshop as well as based on some of the key concepts proposed in other parties' tariffs. With these modifications and potentially additional modifications based on further stakeholder feedback, CESA recommends that the Commission consider piloting our DHC Tariff idea.

CESA views the key barrier of RFO mechanisms as being the time pressures to meet solicitation deadlines and deployment milestones, which likely reduces market participation in RFOs and/or increases bid-in costs for DER providers to deploy projects. CESA thus originally proposed the DHC tariff targeted at longer-term needs (*e.g.*, Year 5) to supplement a shorter-term focus more suitable for RFOs, with the tariff being deployed in Year 0 to reduce the 'burden' and risk of having a large need met through an RFO process launched in Year 3. At the workshop, the IOUs expressed some doubts about this tariff-plus-RFO approach because Year 5 needs are too uncertain, few planned investments are made that far out into the future, and upfront payments made to DERs through the DHC Tariff raises over-procurement or over-payment risks.

CESA appreciates this feedback and proposes modifications to its DHC Tariff. The modified DHC Tariff maintains some of the tariff-plus-RFO approach and would be proposed as follows:

- **The DHC Tariff would procure for distribution capacity and hosting capacity services.** These are distribution grid services that are recognized by the Commission and would enable synergies with the DIDF.
- **The DHC Tariff would establish performance obligations and penalties similar to what is established for RFO contracts.** The frequency, duration, and magnitude of the distribution capacity need as identified and quantified in the DIDF would inform these performance expectations. These standardized terms would create dispatch or service windows, net loading restrictions, notification protocols, and other terms and conditions that mirror how PG&E has structured its distribution capacity product. As done through the DPAG, the IOUs would work with stakeholders to identify the best-fit projects that would lead to the greatest likelihood of success that DER solutions could address the capacity need, especially projects with high unit cost of mitigation and high locational net benefits analysis (“LNBA”) values that would translate to higher payments that incentivize tariff subscription as well as RFO participation.
- **Distribution capacity projects with steady and moderate load growth would be targeted for the DHC Tariff combined with an RFO.** To address forecast uncertainty concerns, Year 3 needs should be targeted where load growth is projected to be steady and moderate but would exceed distribution equipment and infrastructure limits. A DHC Tariff could be implemented and targeted at specific locations to address some portion of the projected Year 3 capacity need, with tariff subscribers helping to push out the deferral need to a later time (*e.g.*, Year 4 or Year 5, depending on tariff subscription levels). At the same time of tariff launch, an RFO could also be launched simultaneously to address the remaining portion of the projected Year 3 capacity need, which could be delivered in Year 4 or 5, depending on tariff subscription levels.<sup>4</sup> Extending the RFO timeline may also have the additional benefit of inviting more market participants to respond and lead to lower bid-in costs from not having to accelerate their project development timelines. Large and/or lumpy investments likely should not be targeted for this sourcing approach since RFOs may better solicit IFOM DER projects with economies of scale and greater near-term certainty of solutions. Other criteria for best-fit projects are likely needed. The DPAG and the DIDF is well-positioned to identify, develop, and apply such filtering criteria.

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<sup>4</sup> To illustrate, imagine there is a 5-MW distribution capacity need in Year 3. If a 2-MW DHC Tariff is made available and can be fully subscribed within one year, then it is possible that the 5-MW distribution capacity need could be pushed out to a later time, which may allow the IOUs to provide RFO bidders with additional time to respond to a competitive solicitation (*e.g.*, from one month to multiple months).

- **The subscription period for the DHC Tariff would be open for a minimum one-year period.** A subscription period of less than one month is unlikely to yield sufficient market response to commit DERs. DER providers face challenging customer acquisition and project development cycles that are hard to accomplish over a short period of time. They are likely deterred by the limited time to assess the risk of a deferral opportunity and to submit an informed bid. A longer subscription period would facilitate greater DER participation while also serving to push out the timing of the capacity need with some incremental level of subscription. Interim milestones based on established thresholds should be set so that the capacity need is pushed out to a sufficient degree<sup>5</sup> to allow for the IOUs to leave the subscription period open for a year or more and to grant the RFO additional time to respond.
- **A cap on subscription levels should be set for the DHC Tariff.** Given that the IOUs do not want to conduct ‘ratable procurement’ in perpetuity, a cap on the tariff subscription level would limit the need for continuous procurement. The cap level should be determined by assessing the amount of DER subscription needed under the tariff to sufficiently push out the deferral need to allow for a longer tariff subscription period and to allow for more time to be granted to respond to RFOs and to deploy projects for RFO winners.
- **An upfront and pre-determined capital payment price should be set in the DHC Tariff along with ongoing \$/kWh performance-based incentive payments.** Pre-determined price points should be set for the DHC Tariff similar to what was proposed by CALSSA and SCE. These values could be calculated based on ensuring that the sum of the costs of capital, capacity, and service payments do not exceed the proportional value of the traditional capital investment. In addition, these values could be indexed to changes in the underlying need to mitigate over-procurement and under-procurement risks. The split between upfront versus capacity/energy payments could be explored further to ensure the appropriate incentives are provided to build the DER project as well as to continue to perform over time. Alternatively, if incrementality rules are refined to allow existing programs such as SGIP to pay down the upfront costs of the DER, a greater or full portion of the payment could be made through performance-based payments, which would also send sharper and stronger economic signals to dispatch in desired ways. Tariff-based commitments could be for the duration of the deferral term of the traditional capital investment – *e.g.*, 7 to 10 years.

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<sup>5</sup> For example, there may be certain summer-peaking distribution capacity needs (Year 3) that need x MW of capacity to sufficiently push out the need to the following summer (Year 4).

Given this modified tariff design, CESA believes that our tariff proposal meets each of the design principles outlined by the Commission and addresses one of the core issues of the RFO mechanism, which can be market limiting due to the compressed timeline to respond:

### **1. Alignment with design principles**

The modified DHC Tariff meets the design principles similar to CESA's original DHC Tariff idea but better meets the principle around technology neutral by inviting participation from both BTM and IFOM resources. While IFOM resources have constituted the majority of bids in the recent RFOs, this mechanism may invite greater participation from the additional time granted during the solicitation and deployment process. Meanwhile, with a longer period tariff made available, a broader and deeper range of BTM resources will likely be incentivized to participate.

### **2. Meeting grid needs**

The modified DHC Tariff meets identified grid needs. The tariff contract is designed to mirror many elements of the DIDF RFO contracts and thus can be operationalized to meet the identified grid needs.

### **3. Managing risks**

Under-procurement risks are addressed through using the screening process in the DIDF and DPAG to identify best-fit projects for this type of sourcing approach. If tariff subscription does not reach an interim milestone by a certain time period to sufficiently push out a need, contingency solutions could be pursued to mitigate under-procurement risks. Meanwhile, there is still some level of over-procurement and over-payment risk by committing upfront payments to tariff-subscribed resources if the tariff is ultimately not successful. Leveraging existing programs could address this risk, but current incrementality methodologies do not reasonably allow for leveraging existing programs.

Some level of over-payment may occur, so a relatively small amount of upfront payment could be given to DERs, similar to what was proposed by Sunrun.

#### **4. Addressing incrementality**

Under current incrementality rules, this DHC tariff would require partial or no eligibility for the upfront payment for resources enrolled in or participating in other programs. Incrementality rules would need to be better defined as part of this tariff.

With the proposed modifications to the DHC Tariff, CESA believes that it is worthwhile for the Commission to approve a pilot using this DER tariff mechanism, so long as grid needs are identified that align well with this type of approach. More work is likely needed to set the appropriate threshold or criteria for the DHC Tariff, and more work is likely needed to fill in the details of this proposal. CESA looks forward to further feedback on this proposal idea and to further collaboration with other stakeholders.

#### **B. Sunrun’s Bring Your Own Device (“BYOD”) Tariff**

CESA supports Sunrun’s proposal as broadly meeting the design principles and addressing grid needs through operational requirements and/or performance-based incentives that provide their three proposed products: Distribution Capacity Infrastructure Deferral, Clean Distribution Peaking Capacity, and Negative Market Pricing Capacity. Only the distribution capacity product is recognized by D.16-12-036 as distribution grid services that could be provided by DERs within the DIDF, which could be piloted in the near term by the IOUs, but CESA would also like to see the Commission explore DER tariffs in the future for Clean Distribution Peaking Capacity and Negative Market Pricing Capacity, which would align with the state’s goal of reducing GHG emissions and help realize stacked value from DERs (*e.g.*, reduced ramps that reduce Flexible RA capacity needs). Certain clarifications and potential modifications are likely needed on the tariff



design, including around whether this tariff is closely linked to specific projects identified in the DIDF or a more flexible distribution service tariff made available as needs arise, the length of the subscription window, and the ratio of payment between Tier 1 upfront payments and Tier 2 performance-based payments. As noted in our general comments and responses to questions above, the length of the subscription window is important to provide sufficient time for DER providers to respond to a deferral opportunity. If the tariff is not tied to the DIDF, further exploration may be needed around CESA's suggested linkages to the GMP and/or how DER cost-effectiveness would be assessed. The ratio of Tier 1 and Tier 2 payments would also be essential in determining the level of potential over-payment risks versus providing sufficient incentive to pay for DER deployment. CESA looks forward to Sunrun's response.

### **C. CALSSA's Grid Services Tariff**

CESA supports CALSSA's proposal as broadly meeting the design principles and addressing grid needs through operational requirements that leverage the DIDF process and mirror DIDF contracts. With an 85% discount factor for DERs relative to traditional investments, the tariff mechanism ensures cost-effectiveness of DER alternatives if successful and provides greater price certainty to DER providers. One area of clarification is around the proposed publicly available and frequently updated queue, which sets a subscription window and potential milestones for off-ramps to pursue contingency solutions if DERs fail to materialize to address the full distribution grid need. The total subscription period and the interim subscription milestones are not specified, but based on how the tariff mechanism leverages the DIDF process and likely targets the three-year-ahead deferral opportunities, CESA wonders whether this tariff mechanism will provide a long enough subscription window to address the issue of DER providers needing more time to respond to deferral opportunities. These clarifications and potential modifications are likely

needed on this aspect of the tariff design. Finally, to address under-procurement risks, CESA recommends that this tariff consider certain thresholds be set for the proposed off-ramps – *e.g.*, in the first quarter of the total allocated subscription period, 25% of the distribution capacity need must be met. CESA looks forward to CALSSA’s response

#### **D. SCE’s Riders Tariff**

By leveraging the DIDF and by establishing performance expectations and compensation in accordance with those needs, CESA believes SCE’s Riders Tariff can address grid needs but has some concerns around how it would meet certain design principles (*e.g.*, incrementality) and requests some clarifications on the general tariff design. For example, clarification is likely needed on how technology effectiveness factors would be applied within the tariff in a streamlined fashion, which CESA is familiar with as an RA capacity planning tool and one that is normally applied in RFO processes. SCE mentioned in its proposal that it would display DER “profile types” in the tariff offering that would help meet the need, but it is unclear to CESA at this time on how those profile types would translate to value and compensation to the DER alternatives. Other areas of clarification include ongoing payment service provisions, penalty structures, ratio of upfront versus ongoing performance-based incentives, and duration of the tariff availability, among others.

CESA’s main concern with this proposal is its reliance on existing programs using current incrementality definitions and methodologies – *i.e.*, eligible projects would have to go beyond the planning forecasts. Without refinement of those methodologies, DERs may be undercut in terms of eligibility for the tariff and in terms of the compensation amount for the services they provide. Furthermore, CESA has concerns that the tariff feature to withhold payments until the IOU has assurance that there is “sufficient” participation to meet the grid need is likely not going to drive new DER deployment. There could be first-mover risks under this tariff design as well. However,

depending on how incrementality methodologies are refined, existing programs could support DER deployment and reduce or eliminate the need for upfront payments through the Riders Tariff. CESA looks forward to SCE's response.

**Question 7: Which tariff proposal(s) would you oppose and why? Include in your opposition explanation whether this proposal meets the design principles, meets grid needs, manages risks, addresses incrementality, and ensures that operational requirements are met. Explain whether you would only oppose this proposal or proposal(s) as a tariff or also as a tariff pilot.**

CESA does not outright oppose any of the proposed tariffs presented by parties at the workshop since they all represent potential incremental improvements on the status quo process of relying exclusively on RFOs, which can be challenging for DER providers, as noted in our response to Question 1. However, for the purposes of piloting a limited number of tariff ideas, CESA believes there are some ideas that materially improve market participation from a broader set of technologies, including from BTM resources, and are materially different from the current RFO process. In sum, CESA recommends that the Commission not pursue the variations of the standard-offer contract tariff idea from PG&E and SCE as pilots since they represent a more streamlined version of the RFO mechanism but do not overcome the problem faced by DER providers in having limited time to effectively respond to deferral opportunities. In addition, CESA recommends that the Commission not pursue the Regional DER Tariff idea from SEIA and Vote Solar at this time due to the lack of linkages to the DIDF, though this idea could be pursued in the next phase of this proceeding. CESA details our rationale below in accordance with the question above.

### **A. PG&E's Distribution Investment Deferral Framework Tariff and SCE's Distribution Deferral Services Standard Offer Contract**

Due to the similarities between PG&E's and SCE's proposals, CESA addresses our views and responses to these tariff proposals together. In general, CESA views these proposals as structured as adhering to design principles, meeting the grid need, managing over-procurement and under-procurement risk, and addressing incrementality based on current definitions. However, CESA does not believe that these proposals mitigate the risks faced by developers or materially improve upon the current RFO process.

Overall, CESA is unclear on the comparative benefits of their proposed standard-offer contracts as compared to the current RFO approach. The major difference between the standard-offer contract and RFO contract is that the former provides some upfront price certainty to bidders with set price points via an offer sheet in PG&E's proposal or via a reverse auction mechanism in SCE's proposal. However, CESA believes that there are potential market efficiencies lost through these pre-determined price points, even though contracting at one of these price points would make the DER cost-effective relative to the traditional capital investment. For example, a competitive solicitation process incentivizes bidders to increase the odds of winning the RFO contract by bidding at marginal costs plus some margin, while pre-determined price points set payment levels irrespective of a bidder's marginal costs. Furthermore, this approach would force the IOU to contract only for distribution capacity rather than providing bidders with the flexibility to stack value and provide additional benefit to the buyer and the ratepayers. Stacking opportunities would be reduced for IOUs like SCE, which could contract for other services such as Resource Adequacy ("RA") separately from the same bidding resource or from another resource. It would be more efficient and cost-effective to procure for not only distribution capacity but also RA capacity from the same solicitation, if the resource is capable and if the buyer is seeking such value stacking

opportunities.<sup>6</sup> Even though value stacking and multiple-use applications (“MUAs”) are not categorically disallowed through this proposed tariff mechanism, it would represent a loss of procurement efficiency for the buyer and would require the seller to put in extra time and resources to compete in other procurement opportunities or enroll in other grid-service programs to realize MUA benefits, if so desired.

Perhaps more importantly, CESA does not see any material advantage or difference between the RFO structure and the standard-offer tariff mechanism in terms of providing additional time for DER providers to assess their capability to respond and to actually respond to identified distribution grid needs. In PG&E’s proposal, the standard-offer tariff would have a subscription period open for a few days. In SCE’s case, the subscription period and pricing process is not specified, but SCE discussed how the subscription will be made available on a limited basis. Even if the subscription period was extended to one month, this would be roughly the same amount of time minimally afforded to RFO participants at the moment. Furthermore, with contracts only awarded once enough capacity has been procured through the tariff in both cases, the uncertainty and risk for DER providers to respond to the tariff mechanism is not reduced as compared to the RFO mechanism.

With all of these factors combined, DER providers would not be incented to build new projects to address the identified grid need. There are trade-offs between tariffs and RFO mechanisms, but it appears PG&E’s and SCE’s tariff proposal ideas leverage the advantages of tariff-based mechanisms to justify these trade-offs.

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<sup>6</sup> CESA recognizes that PG&E and SDG&E have only looked to buy distribution capacity in their past IDER RFOs, so the lost value-stacking opportunities are not a near-term issue. However, PG&E and SDG&E may change their perspective as other needs arise. For example, they seem to have a surplus of RA capacity, but depending on market conditions, CESA could see PG&E and SDG&E finding value in multiple-use applications from the same mechanism.

## **B. SEIA's and Vote Solar's Regional DER Tariff**

CESA supports the Regional DER Tariff proposal idea proposed by SEIA and Vote Solar but finds it out of scope based on the design principles as outlined by the Commission, particularly the one around addressing specific grid needs. Though modifications to the design principles are needed, CESA generally supports them to guide the development of near-term DER tariff pilots. Consequently, the Regional DER Tariff appears to be out of scope of the current DER tariff discussions, which appropriately focuses on leveraging potential synergies with the DIDF. At the same time, this tariff idea should be considered at a later time in this proceeding, if the Commission considers DER tariff proposal ideas not tied to specific projects and distribution grid needs.

**Question 8: At this point, the record does not contain any information regarding the costs of implementing or administering the proposals. What details should the Commission know about implementation/administration costs before adopting either a proposal or a pilot?**

CESA has no comment at this time.

**Question 9: What cost parameters should the Commission adopt for the proposals? What cost parameters should the Commission adopt if a proposal is piloted first?**

Cost caps and/or tariff participation limits should be established for any of the tariff proposals that ensure that the costs of the DER alternative are less than the traditional capital investment.

**Question 10: Beside costs, is there additional information the Commission should obtain before adopting any of the proposals? Could this information be obtained through piloting the proposals?**

Yes, CESA believes an evaluation framework is needed if the Commission approves one or more tariff proposals. Pilots are intended to provide lessons learned, best practices, and key metrics that could support the Commission's decision to potentially make improvements on an

idea, scale the idea, or abandon the tariff. Some of the evaluation questions could be developed based on how well the tariff met the design principles, which, as discussed above, require modifications. Certain key thresholds or metrics could also be established to help the Commission assess whether the tariff was a success. This evaluation framework could be structured similar to the IDER Incentive Pilot RFO, with a follow-up stakeholder process whereby the tariff results could be discussed.

**VI. CONCLUSION.**

CESA appreciates the opportunity to submit these responses to the Ruling and looks forward to working with the Commission and other stakeholders in this proceeding.

Respectfully submitted,



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