BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Microgrids Pursuant to Senate Bill 1339 and Resiliency Strategies.	Rulemaking 19-09-009 (Filed September 12, 2019)

COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENT ON THE TRACK 2 MICROGRID AND RESILIENCY STRATEGIES STAFF PROPOSAL, FACILITATING THE COMMERCIALIZATION OF MICROGRIDS PURSUANT TO SENATE BILL 1339

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August 14, 2020

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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") hereby submits our comments on the *Administrative Law Judge's Ruling Requesting Comment on the Track 2 Microgrid and Resiliency Strategies Staff Proposal, Facilitating the Commercialization of Microgrids Pursuant to Senate Bill 1339* ("Ruling"), issued on July 23, 2020 by Administrative Law Judge ("ALJ") Colin Rizzo. In these comments, CESA provides our general recommendations and provides our responses to the attached Track 2 Staff Proposal ("Staff Proposal").

I. INTRODUCTION.

CESA appreciates the Commission's thoughtful consideration of the various microgrid barriers, issues and potential solutions in the Staff Proposal. While Track 1 of this proceeding appropriately focused on near-term strategies to support resiliency needs ahead of the 2020 wildfire season, Track 2 was scoped by the Commission to more specifically address the various requirements outlined in Senate Bill ("SB") 1339 before December 1, 2020. As such, CESA views the Track 2 issues and solutions as playing an important role to facilitate the broader commercialization of microgrids. CESA views the Staff Proposal as feasible starting point to discuss the future of microgrids within California; however, it must be further refined to: (1) address the statutory requirements of SB 1339; (2) develop policies to resolve issues related to microgrids that would serve non-contiguous parcels that enables a broader set of microgrid projects; (3) reconsider the designation of microgrid customers as departing load; (4) ensure the deployment programs considered do not unduly burden disadvantaged and/or underserved customers; and, (5) more broadly enable the commercialization of microgrids in California by creating a dedicated microgrid tariff, among others. In other words, the Staff Proposal falls short of facilitating the commercialization of microgrids. The pilots and temporary rule changes provide a bridge to the full commercialization of microgrids, which is minimally sufficient and provides an opportunity to support microgrids in the interim while more complex policy and technical issues, as highlighted in the Staff Concept Paper, are worked out.

As expressed at the August 5, 2020 workshop, CESA understands the Commission's goal of meeting the statutory requirements ahead of the December 1, 2020 deadline pursuant to SB 1339 and staff's explanation that the Staff Proposal represents the "floor" of what the Commission plans for microgrid policy development in Rulemaking ("R.") 19-09-009. To this extent, CESA is appreciative of the Commission's thoughtful consideration of some of the complex issues to meet the minimum statutory requirements. On the other hand, CESA believes that a number of key issues, such as the policies needed to support community microgrids that "cross the street" and more broadly support "bottom-up" microgrid project development, are not addressed in the immediate proposals. Building on the Staff Concept Paper, which helpfully lays out the longer-term issues and barriers and discusses several proposal options, CESA continues to urge the Commission to develop a long-term microgrid investment framework that can more comprehensively assess microgrid and resiliency needs and opportunities and to identify the most effective solution(s) to address them. As the Commission and investor-owned utilities ("IOUs") pursue wildfire mitigation strategies, CESA has not observed adequate consideration of microgrid solutions as means to address such resiliency needs.

To this end, CESA believes that the Commission should strive to develop a microgrid policy roadmap and a set of policy principles (*e.g.*, how California's microgrid strategy must not only address resiliency needs but also align with the state's decarbonization goals) to assess resiliency needs within the state. With such roadmaps, policy principles, and frameworks in place, the Commission's various pilots and proposals can help to keep the state on course to a healthy, competitive, and efficient resilience investment market that facilitates the commercialization of microgrids, pursuant to SB 1339. CESA is appreciative of the Staff Concept Paper and the fact that a Track 3 of this proceeding may consider additional policy issues, indicating that the Track

2 Staff Proposal only represents the beginning of policy development for microgrids. Given the urgency of wildfire and public safety power shut-off ("PSPS") risks, these foundational issues should be expeditiously addressed in Track 3, if not sooner. At the very least, CESA believes that there needs to be additional comment, workshop, and working group meetings regarding the extensive work developed in the Staff Concept Paper.

In response to the Track 2 Staff Proposal, CESA offers our specific comments and responses to the questions from the Ruling below on the five main proposals. We are generally supportive of the secondary proposals and may seek to offer additional perspective in reply comments.

II. PROPOSAL 1: DIRECT THE UTILITIES TO REVISE RULE 2 TO EXPLICITLY ALLOW THE INSTALLATION OF MICROGRIDS AS SPECIAL FACILITIES.

CESA understands that Proposal 1 is intended to address a specific type of microgrid – *i.e.*, utility-owned customer-sited microgrids – where Rule 2 ambiguities and inconsistencies can create regulatory uncertainty and lead to case-by-case exemptions to be pursued with the Commission in support of such microgrid projects. It is unclear on how pervasive this barrier presents to utility-owned microgrids, but to the degree that the Rule 2 added and special facility terms do so, CESA is generally supportive of staff's recommendation for Option 2 in Proposal 1.

However, in order to unlock the transformational potential of microgrids, additional consideration should be made for third-party-owned microgrids, which is generally the more appropriate project type for customer-sited microgrids, unless market failures have been identified. Namely, CESA recommends the Commission to take a more comprehensive review and revision of Rule 2 to reassess the connected load ratings defined in their respective tariffs. CESA elaborates on this recommendation in our response to Section II Questions 4 and 5 below.

Question 1: In response to Proposal 1 to direct the utilities to revise Rule 2 to explicitly allow the installation of microgrids as special facilities, please indicate support or opposition to Option 1, Option 2, or Option 3 and explain your support or opposition.

CESA supports Option 2 as it creates a level playing field for utility-owned microgrids across the three largest IOU territories. CESA agrees with the Commission's interpretation of the regulatory barrier associated with Rule 2, noting that the inclusion of specific types of added and special facilities could be interpreted as exclusive, thus creating a perceived need to seek approval by the Commission to install equipment related to generation or microgrid control.

Question 2: **In response to Proposal 1 to direct the utilities to revise Rule 2 to explicitly allow the installation of microgrids as special facilities, please indicate support or opposition to Option 1, Option 2, or Option 3 and explain your support or opposition.**

Option 2 should be adopted by the Commission as it would ease the approval of necessary equipment for microgrid deployment.

Question 3: **In response to Proposal 1 to direct the utilities to revise Rule 2 to explicitly allow the installation of microgrids as special facilities, please indicate support or opposition to Option 1, Option 2, or Option 3 and explain your support or opposition.**

Option 2 should be adopted by the Commission as it would ease the approval of necessary equipment for microgrid deployment.

a. Would adoption of Option 2 prevent utilities from developing microgrids per Section 8371.5?

CESA does not believe that the adoption of Option 2 would hinder the deployment of microgrids by the IOUs.

b. Would adoption of Option 2 cause unintended barriers to construction of other types of microgrids? If so, please discuss.

No, other types of microgrids are not hindered by the adoption of Option 2. At the same time, Proposal 1 also does not provide address the barriers applicable to third-party-owned microgrids. Whether Rule 2 in its current form poses challenges to third-party-owned microgrids and/or could be modified to facilitate their development should be explored, as discussed above.

c. Would adoption of Option 2 prevent cost shifting per the requirements of Section 8371(b) and (d)?

CESA has no comment at this time.

Question 4: **Is there anything more the Commission should consider about revising Rule 2 to allow the installation of microgrids as added/special facilities? Should the Commission consider alternative**

approach to ease barriers to the development of added/special facility microgrids?

Yes, CESA believes that there is an opportunity to support the development of microgrids with broader assessment and potential revision of Rule 2. With the advanced capabilities of firmware and software controls for distributed energy resources ("DERs") today, the Commission should consider revising Rule 2 (as well as, potentially, Rule 1) around how connected loads are rated and defined for load service to be provided by the IOU to the customer. Currently, for example, the IOUs' Rule 2 tariffs (*e.g.*, PG&E Rule 2 Section H) calculate the connected load ratings based on the sum of the rated capacities of all electric utilization equipment served through one metering point and that may be operated at the same time. As CESA understands it, such DER technologies and controls are not subject to the added and special facilities classification and terms in the tariff, but modifications to Rule 1 and 2 to allow for the specification of "firm load service" capacity by customers has the potential to support more economical development of microgrid solutions through the use of DERs, smart controls, and/or automated demand response ("DR"). Rather than being subject to Rule 15/16 costs and other applicable charges based on the additive sum of all nameplate capacity behind the point of common coupling ("PCC"), customers would be empowered to specify the level of load service desired from the IOU while utilizing load balancing and shifting strategies to deliver any service beyond this minimum service level.

Especially as microgrid projects may install "oversized" DERs to deliver on the customer's resiliency needs, such modifications would potentially provide significant economic savings to the customer and to ratepayers in having to pay for distribution upgrades in support of these otherwise higher cumulative load service requirements. The controls and technological capabilities are available today, and CESA understands that some discussion on technical pathways may need to be discussed to ensure safety and reliability, perhaps by establishing certain parameters for the specification of the desired level of load service under a modified Rule 2 tariff. How this change may impact Rule 21 interconnection requirements and cost allocation may also need to be discussed.

<u>Question 5</u>: Do Pacific Gas & Electric Company (PG&E) and San Diego Gas & Electric Company's (SDG&E) respective Rule 2 added/special facilities sections present barriers to development of these types of

microgrids as written? If so, how would they need to be amended to support construction of these types of microgrids?

As noted in our response to Question 4 above, the definitions for connected load ratings in each of the IOUs' Rule 2 tariffs currently present potential economic barriers to microgrid projects.

Question 6: What other considerations should the Commission give toward revising Rule 2, to explicitly allow the installation of microgrids as special facilities?

CESA has no further considerations to add at this time.

III. PROPOSAL 2: DIRECT THE UTILITIES TO REVISE PG&E RULE 18, SCE RULE 18, AND SDG&E RULE 19 TO ALLOW MICROGRIDS TO SERVE CRITICAL CUSTOMERS ON ADJACENT PARCELS.

Proposal 2 begins to address some of the barriers presented by Rule 18 and 19 that prohibits the supplying of electricity to other premises once delivered to another premise. CESA appreciates this change and believes it can support a subset of microgrid projects, subject to additional technical details being worked out to ensure safety and reliability.

However, the array of options presented under Proposal 2 would be applicable for microgrids serving one to two contiguous parcels but not crossing the street[1] and thus falls short of addressing the regulatory barrier related to Public Utilities Code ("PUC") 218, which requires any entity who wishes to sell power to more than two contiguous parcels or across a street to become an electrical corporation.[2] On the other hand, CESA understands that this barrier is beyond the Commission's jurisdiction to modify PUC 218 and 216. In the meantime, CESA supports the longer-term work on this issue as outlined in the Staff Concept Paper.

Question 1: In response to Proposal 2 to revise PG&E Rule 18, SCE Rule 18, and SDG&E Rule 19, please indicate support or opposition to Option 1, Option 2, or Option 3 and explain your support or opposition.

CESA supports the adoption of Option 1. As currently drafted, Options 1 and 2 are identical with the exception of the subscription limit included in Option 2, where staff recommends a

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[1] *Ibid*, p. 8.

[2] See PUC 218 (c) (2).

subscription limit of 10 microgrid projects across the three IOU service territories.[3] This subscription limit is decidedly low given the scope of de-energization risks related to wildfires and the significant demand for microgrids, in addition to how the limit does not serve the purpose of broader microgrid commercialization, as mandated by SB 1339. CESA understands the Commission's intent to allow for review of the exemption and identify potential modifications that could improve this proposal; nevertheless, considering the disconnection risks related to wildfires, Option 2 would continue to bound the resilience potential of microgrids by confining them into a pilot status. Even though Option 1 is substantially better suited to incent the commercialization of microgrids relative to Option 2, it must be expanded to address other statutory barriers.

Question 2: In response to the Staff Proposal's recommendation, should the Commission adopt Option 2? If not, what modifications should the Commission consider?

See our response to Section III Question 1 above. Instead of Option 2, CESA recommends the Commission adopt Option 1 as it most closely meets the intent of SB 1339.

Question 3: Is Option 2 reasonably tailored to support the broader statutory goal of SB 1339 to facilitate the commercialization of microgrids?

See our response to Section III Question 1 above. Instead of Option 2, CESA recommends the Commission adopt Option 1 as it most closely meets the intent of SB 1339. Furthermore, Option 2 does not facilitate the broader statutory goal of SB 1339 as it both limits the number projects that would be exempt from Rule 18/19 and does not address the issues related to PUC 218 and 216.

Question 4: What other considerations should the Commission give toward revising Rule(s) 18 and 19?

CESA is generally supportive of the proposed Rule 18/19 revisions and looks forward to working on the technical details in the tariff and in the operational protocols for enabling parallel operations during outage conditions. Nevertheless, CESA seeks a future deeper discussion on the

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[3] CPUC ED, *Staff Proposal for Facilitating the Commercialization of Microgrids Pursuant to Senate Bill 1339*, July 2020, p. 10.

policy and reliability issues with electric supply across premises during blue-sky conditions,[4] which was touched upon in the Staff Proposal but may warrant further examination.

Question 5: Is a subscription limit of 10 microgrid projects within the three IOU's territory sufficient? If not, what should the limit be? Discuss your reasoning for the new number. Alternatively, if 10 microgrid projects is sufficient, please discuss support.

CESA views the subscription limit as low considering the scale of resiliency needs in the state and how this modification would solely apply to up to two contiguous critical facilities that are owned by municipal corporations.[5] Considering this narrow use case, eliminating the subscription limit would have a marginal impact as it is unlikely that the number of applicable facilities across the state exceeds the proposed limit. In effect, the current subscription limit represents a pilot application of microgrids, not an effort to commercialize them.

Furthermore, in addition to lifting or increasing the subscription limit, CESA recommends that Proposal 2 to be modified to not be limited to municipal critical facilities, instead making all critical facilities listed in D.19-05-042 and updated in D.20-05-051 to be eligible for the Rule 18/19 exemption. The only reason for limiting the range of eligible customers was to establish a pilot-level scope and due to the assumption that municipal facilities are unlikely to purposely operate under normal conditions. On the former consideration, CESA believes the range of eligible customers may already be limited, as noted above. Meanwhile, for the latter consideration, staff should substantiate why it believes that other critical facilities would purposely operate during normal conditions. If the exemption is clearly articulated in the tariff as only applying during outage conditions, this would be legally binding to the customer and thus disincentivize such behavior.

Given the binding nature of the tariff, CESA believes a case could be made for all types of customers to be able to take advantage of the Rule 18/19 exemption, not just critical facilities. Small business parks and apartment complexes could also form microgrids and promote equity to some of the hardest-to-reach customers while being obligated to adhere to the tariff's terms, including to only operate during outage conditions, as proposed in the Staff Proposal.

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[4] *Ibid*, p. 9.

[5] *Ibid*, p. 8.

<u>Question 6</u>: Currently, the subscription of projects is limited by the number of projects. Is there another unit to consider and if so, what amount of unit? Please justify your answer.

Though the subscription limit should be eliminated or increased, CESA has no objection at this time to the use of the number of projects as the unit by which to measure the subscription limit.

<u>Question 7</u>: Would the adoption of Option 1 or 2 cause unintended barriers? If so, what are they and how should the proposal be amended to avoid such unintended barriers? Please provide justification for your answer.

See our responses to Section III Questions 1 and 5.

<u>Question 8</u>: Critical information facilities are included in the list the IOUs are required to develop and maintain pursuant to D.19-05-042. Are there other critical facilities or facilities that should be considered but are not part of D.19-05-042's list? Please justify your response.

CESA generally agrees with aligning the definition of critical facilities with that included in Decision ("D.") 19-05-042. However, the de-energization guidance has been updated with the recent issuance of D.20-05-051, which, among other things, expanded the definition of critical facilities to include the transportation sector and 911 emergency services.[6] As the State's transition to an electrified transportation sector advances, resiliency of vehicle charging infrastructure will be fundamental to preserve the flow of goods and services and to ensure travel to reach shelter and emergency services during crisis situations. With these considerations in mind, CESA recommends the Commission use the most up-to-date definitions and guidance.

<u>Question 9</u>: Do you agree with the Staff Proposal's recommendation that the utilities should file a Tier 2 advice letter to implement the changes to Rule(s) 18 and 19? Please justify your response.

CESA has no comment at this time.

[6] D.20-05-051 at 74.

IV. <u>PROPOSAL 3: DIRECT UTILITIES TO DEVELOP A MICROGRID RATE SCHEDULE</u>.

CESA is generally supportive of staff's recommended Option 4 and the general pursuit of a single standardized rate schedule to support microgrids but we offer additional recommendations to adjust the exemptions from cost responsibility surcharges, address broader grid benefits, support clean microgrid solutions, and reassess the islanding performance requirements.

Question 1: In response to Proposal 3 to develop a standardized rate schedule for combinations of technologies that are eligible for interconnection under Rule 21 and together comprise a microgrid, please indicate support of or opposition to Option 1, Option 2, Option 3, Option 4, and/or Option 5. Explain your support or opposition.

CESA partially supports Option 4, noting the need for a new microgrid tariff. This option mandates the creation of a new rate schedule for microgrids, allows for export, maintains net energy metering ("NEM") eligibility, imposes no enrollment caps, but does not includes additional exemptions from cost responsibility surcharges per the criteria included in the Proposal.[7] Option 4 represents a viable starting point for the development of a new microgrid rate schedule; however, CESA does not consider the exclusion of all cost responsibility surcharge exemptions is reasonable. More specifically, CESA recommends that: (1) when deployed to provide indefinite islanding for critical facilities, defined in alignment with the De-energization proceeding, microgrids should be fully exempt of departing load charges and standby reservation charges, per the reasoning applied within Table 3.3 of the Proposal;[8] and, (2) microgrids should be exempt from departing load charges since their beneficiaries would not cease to be customers of the applicable load-serving entity ("LSE"). Considering the regulatory barriers currently posed by departing load charge definitions and other cost responsibility surcharges, CESA recommends the Commission establish a workshop process to create a new microgrid tariff.

Question 2: In response to Proposal 3 to develop a standardized rate schedule for combinations of technologies that are eligible for interconnection under Rule 21 and together comprise a microgrid, please indicate support of or opposition to Option 1, Option 2, Option 3, Option 4, and/or Option 5. Explain your support or opposition.

[7] See *Proposal*, p. 12-13.

[8] See *Proposal*, p. 13.

CESA recommends the Commission consider a modified version of Option 4 as a starting point to establish a new microgrid tariff. As mentioned previously, CESA considers the elimination of all cost responsibility surcharge exemptions is not warranted. CESA agrees with the staff's assessment that most microgrid applications must not be exempt from paying non-bypassable charges as these mostly contribute to fund programs such as California Alternate Rates for Energy ("CARE"), which benefit underserved and disadvantaged populations within the State. Nevertheless, CESA does not share the proposal's reasoning to attribute departing load charges for microgrids in general.

Microgrids seek to further the resilience of the electric sector by harnessing the flexibility of DERs, operating in parallel to the macrogrid and keeping the lights on when necessary. In this sense, microgrids represent a *dynamic load* within the broader grid, not a departing load from the eyes of the applicable LSE. As microgrids will continue to interface with the macrogrid, providing excess power and responsive demand, they should not be considered as "departing load" and should not face said surcharges.

Moreover, CESA recommends the Commission applies the logic presented in Table 3.3 regarding the application of cost responsibility surcharges for microgrids providing long-duration or indefinite islanding for critical facilities. As it can be seen within the Proposal, Options 1 through 3 contemplate a total exemption from cost responsibility surcharges for microgrids providing long-duration or indefinite islanding for critical facilities.[9] CESA agrees with this logic, as the avoidance of said charges would make the deployment of these more financially feasible. Nonetheless, as mentioned above, CESA does not consider an exemption of non-bypassable charges is reasonable since these charges seek to further state goals and support disadvantaged Californians. Considering one of the stated goals of this proceeding is the augmentation of resiliency across the state, CESA considers modifying Option 4 to provide departing load and standby reservation charge exemptions for microgrids serving critical facilities is reasonable and advantageous.

<u>Question 3</u>: What other considerations should the Commission give in its consideration of developing a single, standardized rate schedule to govern microgrids and all their component technologies?

[9] See *Proposal*, p. 13.

While recognizing the work the Commission has done to develop a single standardized rate schedule to govern microgrids and their component technologies, the creation of a new microgrid tariff is warranted. Developing a rate schedule based on the Rule 21 provisions obliges microgrids to fit into the operational assumptions set for its component technologies, omitting the particularities and benefits of the microgrid use case where multiple technologies are involved. In order to do this, CESA recommends the Commission to host a workshop in Fall 2020 focusing on the staff's and other stakeholders' rate and tariff proposals. Per SB 1339, the main focus of the Commission for this year should be the development of this rate/tariff structure.[10]

Question 4: **Should the Commission require that projects eligible for a single, standardized microgrid rate schedule meet any specific performance standards when operating as a microgrid, such as a minimum duration of islanding capability? If so, which specific performance standards should the Commission require and how should they be evaluated for the purpose of determining eligibility for the rate schedule?**

CESA supports the establishment of specific performance standards to determine eligibility for the proposed rate schedule; nevertheless, the current requirement of 96 hours of islanded operation may be excessive, unless otherwise substantiated, which the Staff Proposal does not appear to do. Requiring 96 hours of continuous islanding for eligibility could result in the unintended disqualification of microgrid projects that have been designed to operate with low to no air criteria pollutant or greenhouse gas ("GHG") emissions from clean DER technologies. In this sense, such a requirement may incent the development of fossil-based or fossil-heavy microgrids, a result contrary to the intent of SB 1339. As such, CESA recommends revising or reassessing this definition to align with a customer's actual resiliency needs, where the islanding requirement may differ depending on the level of load and duration needed to provide resiliency for the customer. The level of islanded operations should also be clarified, whether it is seeking full or partial load for islanding service.

Question 5: **Are Options 1-5 reasonably tailored to support the broader statutory goal of SB 1339 to facilitate the commercialization of microgrids while meeting other statutory requirements, including the requirement to avoid cost shifting?**

[10] See *SB 100*, Sec. 2.

The options presented within this proposal are not reasonably tailored to meet the requirements of SB 1339 because they essentially seek to transform Rule 21 into a microgrid rate schedule without considering the potential need for a special tariff that would capture the intricacies of microgrid operations and their broader grid benefits. More specifically, the evaluation of a new tariff structure would allow the Commission to assess which cost responsibility surcharges are reasonable to include rather than automatically assuming the ones applicable now are pertinent. Furthermore, CESA is concerned with the cost-shifting implications of Option 4 as currently drafted. Within Option 4, staff argues cost-shifting risks are mitigated by virtue of eliminating cost responsibility surcharge exemptions. This logic, however, fails to capture the possibility of inverse cost-shifting; that is, the possibility that customers that have elected to install a microgrid would not bear disproportionate costs relative to the broad grid benefits their investments provide. In this sense, Options 1-4 fail to account for the benefit-cost assessment that must be done when microgrids are deployed; contrasting the overall costs of the project to the benefits provided to customers within and beyond the microgrid footprint.

Question 6: Are Options 1-5 reasonably tailored to support the broader statutory goal of SB 1339 to facilitate the commercialization of microgrids while meeting other statutory requirements, including the requirement to avoid cost shifting?

CESA has no comment at this time.

Question 7: For Options 1-4, is the proposed individual project size cap of 10 megawatts in Options 1-4 appropriate? If not, what amount would be appropriate and why?

CESA has no comment at this time.

Question 8: For Options 1-3, would allowing exemptions from cost responsibility surcharges, represent cost shifting prohibited by SB 1339?

Options 1-3 offer some exemptions from cost responsibility surcharges based on different microgrid operation criteria. Some of the proposed exemptions are reasonable and should be extended to Option 4; namely those related to microgrids providing long-duration or indefinite islanding for critical facilities. However, all microgrids, regardless of their application, should be subject to non-bypassable charges as they support the state's overarching social, climate, and energy goals. Establishing an exemption on these charges could result in a regressive form of cost-shifting, contrary to the spirit of the programs encompassed within the non-bypassable charges.

<u>Question 9</u>: For Options 1-3, would allowing exemptions from cost responsibility surcharges, represent cost shifting prohibited by SB 1339?

No, while CESA considers exempting these type of microgrids from departing load and standby reservation would incent the deployment of microgrids serving critical facilities, an exemption of non-bypassable charges could result in significant cost-shifting and a loss of revenues for essential programs benefiting underserved Californians.

<u>Question 10</u>: For Options 1-3, would allowing an interim period in the early commercialization of microgrids during which critical resilience projects can be exempted from specific cost responsibility surcharges be in the public interest? Explain your answer.

Yes, as noted above, CESA is in favor of exempting the aforementioned microgrid applications from cost responsibility surcharges in order to incent their deployment and ensure enhanced resiliency. CESA does not offer a specific interim timeframe but welcomes the opportunity to collaborate with the Commission and other stakeholders to determine a reasonable lapse.

<u>Question 11</u>: For Options 1-3, would allowing an interim period in the early commercialization of microgrids during which critical resilience projects can be exempted from specific cost responsibility surcharges be in the public interest? Explain your answer.

CESA has no comment at this time.

<u>Question 12</u>: For Options 1-3, are the criteria for determining cost responsibility surcharge exemptions presented in Table 3-3 reasonable? Please justify your answer.

The criteria included in Table 3.3 may be insufficient to incent the deployment of microgrids with low to no air criteria pollutant and GHG emissions. As noted in the Staff Proposal, microgrids focused on incorporating non-emitting components are likely to face higher initial costs than those utilizing fossil-based technologies.[11] Thus, in order to incent the deployment of these applications, CESA recommends the Commission contemplate a special criteria for these projects within the cost responsibility surcharge exemptions framework.

[11] See *Proposal,* p. 11-12.

<u>Question 13</u>: For Options 1-3, are the definitions and requirements presented in Table 3-4 reasonable? Please justify your answer.

CESA considers the definition of long-duration or indefinite islanding within the Proposal is excessive and skewed to favor microgrids utilizing fossil-based technologies and as being potentially unnecessary, depending on the customer's specific resiliency needs. As such, CESA recommends revising this definition.

<u>Question 14</u>: For Option 3, is the statewide enrollment cap of 1,200 megawatts an appropriate amount? If not, what amount would be appropriate and why?

CESA has no comment at this time.

<u>Question 15</u>: For Option 3, is the method for allocating a statewide enrollment cap of 1,200 megawatts according to load share appropriate? If not, what alternative allocation method should be used?

CESA has no comment at this time.

V. <u>PROPOSAL 4: DIRECT THE UTILITIES TO DEVELOP A MICROGRID PILOT PROGRAM</u>.

CESA considers the establishment of a pilot program, while valuable, does not do enough to achieve the goal of microgrid commercialization, as directed by SB 1339. As several parties noted during the workshop held to discuss the proposal, the intent of SB 1339 is to enable microgrids to leave the pilot program stage and reach commercial deployment. In this sense, the options presented here fall short of these goals. That said, if pilots are determined to be the path in the interim, this proposal represents an incremental step that will at least generate lessons learned and support some microgrid development in the near term. CESA offers our recommendations to improve the outcomes and potential learnings from the pilot program.

<u>Question 1</u>: In response to Proposal 4 to direct the utilities to develop a microgrid pilot program, please indicate support or opposition to each of the options. Explain your support or opposition.

CESA supports the intent of the options included in Proposal 4 and recommends the following options considered within Proposal 4:

- **<u>Load Serving Entities</u>: Option 1: PG&E, SDG&E, and SCE will administer this program to all customers within their respective territory.** While a third-party administrator would be ideal CESA supports this staff-recommended option as more expeditiously launching these pilots in the near term.

- <u>Funding Source</u>**: Option 2: The projects respective funding source will not be limited from a specific region, but instead will be allocated to all distribution customers of the jurisdictional electric utility.** This is reasonable given the broader distribution benefits the microgrid pilots could provide, but given this funding source, it will be important to consider that the direct beneficiaries also have provide broader grid and societal benefits. Our concern with the staff-recommended Option 1 to fund the projects from ratepayers from the same county the project is located is that it could burden disadvantaged and low-income communities that are being prioritized for microgrid projects. Given the broader equity objectives and the potential for broader grid benefits, a broader base for the funding source is reasonable.

- <u>Project Eligibility</u>**: Option 1: The program administrators will develop a scoring prioritization system that demonstrates their eligibility as listed in the overview. Priority will be given to the highest scoring proposals.** Given the broader base of the funding source and the need to ensure the best-fit projects are supported in the limited range of pilots, a comprehensive assessment should be pursued, instead of the staff-recommended first-come, first-served approach.

- <u>Project Subscription Limit</u>**: Option 2: There will not be a limit to the number of projects if the project is able to demonstrates its ability to meet the commercial operation date by January 1, 2022.** As noted in response to other proposals, CESA believes that a 15-project subscription limit may not achieve the goals of SB 1339.

- <u>Utility Infrastructure Eligibility</u>**: Option 1: In addition to the eligible technology costs described above. Customers within SCE and SDG&E territory will also have access to a one-time matching funds payment to offset some portion of the utility infrastructure upgrade costs associated with implementing the islanding function of the microgrid.** CESA supports this staff recommendation as supporting the economic viability of projects.

CESA highlights that our recommendations diverse from the staff's recommendations in three areas: (1) funding source; (2) project eligibility; and (3) project subscription limit.

<u>Question 2</u>: In response to Proposal 4 to direct the utilities to develop a microgrid pilot program, please indicate support or opposition to each of the options. Explain your support or opposition.

CESA supports the Commission adopts Staff recommendations regarding Load Serving Entities and Utility Infrastructure Eligibility. However, CESA urges the Commission to deviate from Staff's recommendations in the other criteria set forth within Proposal 4.

Regarding funding source, CESA expresses caution with the Staff Proposal to fund projects by applying cost recovery within the same county projects are located in. CESA considers this measure could negatively impact counties in disadvantaged communities ("DACs") with higher proportions of low-income residents who are being prioritizing for these pilots due to their greater economic and health burdens, higher risks of electrical outages, and lower historical level of electrical reliability.[12] As such, funding this program by increasing rates in the counties these projects would be located could be counterproductive to the efforts of correcting historic underinvestment. Instead, CESA recommends the Commission allocates the costs of these projects to all ratepayers within the applicable LSE's service territory. This proposal is in line with Commission precedent which has found it is reasonable to socialize equity costs,[13] as done with electric rates under the CARE Program.

Regarding project eligibility, CESA does not support the staff recommendation to have program administrators ("PAs") assign incentives based on a "first come, first served" basis, as contemplated in Option 2. Instead, CESA recommends that PAs elaborate a scoring prioritization system to evaluate which areas and applications demonstrate the most urgent deployment needs. Once this prioritization is done, PAs would be able to issue requests for offers ("RFOs") in order to ensure applications are compliant with the criteria highlighted within the proposal. CESA considers this approach is superior to the one recommended by Staff as it ensures a level playing field for all projects able to fulfill the targeted needs.

Finally, regarding the project subscription limit, the recommended limit of 15 projects is not adequate and contrary to the intent of SB 1339 to commercialize microgrids. Considering the focus of this pilot program would be to further resiliency and power provision to disadvantaged and historically underserved communities, CESA views this limit as unnecessarily low. With this proposal, the Commission has the opportunity to further the commercialization of microgrids, address the lag on electric infrastructure investment within underserved areas, and procure resources that would substantially mitigate the risks associated to black- and brownouts during the wildfire season, at once. The Commission should take advantage of this momentous occasion

[12] *Proposal*, p. 19.

[13] See *Proposal*, p. 15.

rather than limit the scope of Proposal 4 to merely collect data on microgrid operation. Thus, CESA recommends the Commission adopt Option 1.

__Question 3__: Is Proposal 4 reasonably tailored to support the broader statutory goal of SB 1339 to facilitate the commercialization of microgrids?

No, as presently recommended by staff, Proposal 4 does not represent a clear commercialization pathway for microgrids as mandated by SB 1339 because it signifies yet another pilot opportunity for microgrids but not a strong commitment to enable these resources to reach mainstream commercialization. This deficiency, however, can be addressed by the Commission by adopting the recommendations in our responses to Section V Question 2.

__Question 4__: Is Proposal 4 reasonably tailored to support the broader statutory goal of SB 1339 to facilitate the commercialization of microgrids?

Yes, especially considering this proposal's focus on DACs and underserved communities, CESA believes it is reasonable to authorize rate recovery for this program.

__Question 5__: What other considerations should the Commission give to support the development of a utility microgrid pilot program?

CESA has no comment at this time .

__Question 6__: How should the utilities track costs associated with the actions the Commission orders utilities to undertake pursuant to the staff proposal?

CESA has no comment at this time.

__Question 7__: Are there other options that have not been listed and should be? If so, please discuss the option(s) that should be considered. Include as much detail as possible.

CESA does not have any other option considerations at this time.

__Question 8__: Are there any other objectives and goals that should be included? Alternatively, are there any that should be excluded? Please provide justification.

CESA is generally supportive of the objectives and goals of the pilot and does not have any additional comment at this time.

<u>Question 9</u>: Are there any other project criteria that should be included? Alternatively, are there any that should be excluded? Please provide justification.

As noted previously, CESA recommends the Commission to revise the definition of long-duration or indefinite islanding in order to avoid only incenting the procurement of fossil-based microgrid solutions. In addition, methodologies or approaches to substantiate how GHG emissions and criteria air pollutants are not worse than equivalent grid power need to be developed, as it can be difficult to determine operationally-driven impacts on an *ex ante* basis.

<u>Question 10</u>: Are there any other community criteria that should be included? Alternatively, are there any that should be excluded? Please provide justification.

CESA is generally supportive of the community criteria and has no additional comment at this time.

<u>Question 11</u>: Are there any technology performance criteria that should be included? Alternatively, are there any that should be excluded? Please provide justification.

CESA is generally supportive of the technology performance criteria and has no additional comment at this time.

<u>Question 12</u>: Is the cost cap per project of $15 million reasonable? If not, please provide another amount estimate and justification for that amount.

CESA has no comment at this time.

<u>Question 13</u>: Is the requirement to reach commercial operation by January 31, 2022 reasonable? If not please provide another deadline and justification for that date.

CESA is generally supportive of this commercial operation date ("COD") but recommends that some additional flexibility could be provided to add the COD as a preferred criteria rather than an eligibility requirement, given the generally longer design, engineering, project development, and interconnection timelines of bringing more complex microgrid projects online. In other words, projects with January 1, 2022 COD would be scored more highly than projects with June 1, 2022 COD, which would favor projects that can provide more near-term resiliency benefits and support more timely pilot evaluation but not preclude more complex microgrid projects from being considered that may offer other advantages and benefits worthwhile to study.

VI. PROPOSAL 5: DIRECT UTILITIES TO CONDUCT PILOT STUDIES OF LOW-COST, RELIABLE ELECTRICAL ISOLATION METHODS.

CESA greatly appreciates the Commission's inclusion of Proposal 5 in the Staff Proposal, which was a carry-over item from Track 1 of this proceeding that was supported by a wide number of parties and identified by the Commission as being a potentially viable and effective resiliency strategy. To this end, CESA offers our responses to support the development of Proposal 5.

Question 1: In response to Proposal 5 to direct the utilities to conduct pilot studies of low cost reliable electrical isolation methods, please indicate support or opposition to Option 1 or Option 2. Explain your support or opposition.

CESA supports Option 2 as it provides the incentives for IOUs to study a wide array of potentially cost-effective measures to achieve electrical isolation and is inclusive of Option 1. CESA appreciates Staff's consideration of its Track 1 proposal within Proposal 5 and looks forward to further collaborate with stakeholders on this matter.

Question 2: In response to Proposal 5 to direct the utilities to conduct pilot studies of low cost reliable electrical isolation methods, please indicate support or opposition to Option 1 or Option 2. Explain your support or opposition.

Yes, CESA recommends the Commission adopt staff's recommendation on this issue.

Question 3: Is Proposal 5 reasonably tailored to support the broader statutory goal of SB 1339 to facilitate the commercialization of microgrids?

Yes, Option 2 is reasonably tailored to enable the broader commercialization of microgrids within California. While focused on a subset of potential microgrid opportunities, the addressable opportunity for existing standalone solar systems and vehicle-to-grid ("V2G") resources to provide low-cost resiliency for single customers is large and represents a key tool in the range of microgrid solution options.

Question 4: To support the public health and welfare for disaster response mitigation and resiliency efforts, should the Commission authorize rate recovery for such a pilot study?

Yes, rate recovery for this program is warranted as its results will generally lower the costs and increasing the likelihood of establishing a wide array of microgrid solutions across the state. As a pilot that can support learnings and operational familiarity for the IOUs to broaden this resiliency solution via a future program or tariff, it is reasonable to authorize rate recovery for this effort.

Question 5: What other considerations should the Commission give to support the development of a utility pilot program to evaluate low-cost, reliable electrical isolation methods?

As part of the pilot, operational protocols will need to be developed to support the process for electrical isolation in a safe, reliable, and efficient manner. CESA looks forward to collaborating with the Commission, IOUs, and stakeholders in determining the more technical details of this pilot program.

Question 6: Are the proposed expenditure cap and proposed program criteria reasonable? Are there additional program criteria that should be included?

CESA generally supports the proposed program criteria. With the broadening of the scope of the pilot program, CESA recommends that diverse range of approaches (rather than just one) be supported to a reasonable degree for the purposes of the pilot to advance learnings of different remote isolation solutions.

Question 7: Are there additional approaches, beyond those discussed in Option 1 and Option 2, to provide low-cost, reliable electrical isolation that should be considered for the proposed pilot program?

CESA has no comment at this time.

VII. CONCLUSION.

CESA appreciates the opportunity to submit these comments on the Proposal and looks forward to collaborating with the Commission and stakeholders in this proceeding.

Respectfully submitted,

Alex J. Morris
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CALIFORNIA ENERGY STORAGE ALLIANCE

August 14, 2020