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)

REPLY 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

Alex J. Morris
Executive Director

Jin Noh
Senior Policy Manager

CALIFORNIA ENERGY STORAGE ALLIANCE
2150 Allston Way, Suite 400
Berkeley, California 94704
Telephone: (510) 665-7811
Email: cesa_regulatory@storagealliance.org

August 28, 2020

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)

REPLY 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

In accordance with Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the California Energy Storage Alliance ("CESA") hereby submits our reply 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.

I. INTRODUCTION.

CESA appreciates the thoughtful comments submitted by stakeholders on August 14, 2020. The Track 2 Staff Proposal could be greatly strengthened by considering the meticulous feedback from developers, industry and environmental advocates, load-serving entities ("LSEs"), and local governments. CESA is pleased to find a wide range of parties support some of the modifications included in our opening comments, namely: (1) the revision of the proposal to modify Rule 18/19 to allow a broader set of customers to benefit from it; (2) the reevaluation of considering microgrids as departing load; (3) the development of pilot programs that do not amplify existing inequities; and (4) the creation of a microgrid tariff to support the development of all types of microgrids in California.

Overall, many parties indicate their disappointment or opposition to the Staff Proposal for falling short of the direction from Senate Bill ("SB") 1339 to facilitate the commercialization of microgrids. With its focus on pilots, temporary exemptions, and caps, for example, parties view

the Staff Proposal as taking an incremental approach that does not enable the widespread development of microgrids, especially in the face of increased wildfire and public safety power shutoff ("PSPS") risks. In many ways, CESA shares these sentiments and agrees that the Commission should leverage the lessons learned from pilots already administered by the California Energy Commission ("CEC"). Even if the Staff Proposal represents a "floor" to comply with SB 1339, the incremental approach and temporary nature of the proposals may be overly limiting in supporting the commercialization of microgrids and empowering customers and third parties to invest in microgrid solutions. Temporary exemptions create market uncertainty for microgrid development (*i.e.*, what happens when exemptions expire or pilots end?) and caps to enrollment or project configuration/size likely ensure that many customers will lose out on the opportunity to invest in microgrid solutions to meet their reliability and resiliency needs, especially as demand outstrips the policy-limited supply.

Rather, CESA recommends that the Commission pivot and adapt each of the five proposals in the Staff Proposal to establish a bridge strategy and policy framework that more closely align with the intent of SB 1339. In other words, instead of focusing on pilot-scale microgrids with caps to the number of projects or making exemptions and microgrids temporary in nature, the Commission should avoid such limitations and refine the policies, rules, and tariffs over time. Across different policy areas, the Commission applies a similar approach. For capacity valuation of different resource types, for example, the Commission does not limit the number of resources that can be counted using an adopted valuation methodology, which is refined over time with further data and analysis, even if in hindsight, the Commission would have done it differently. Caps or temporary rules are also not used for Net Energy Metering ("NEM"), the Self-Generation Incentive Program ("SGIP"), or in a number of other policy arenas, even as the Commission and stakeholders recognize that refinements and evolutions will be needed over time, or if there is some level of uncertainty. Especially as microgrids have been piloted by the CEC and proven in many jurisdictions, the Commission should establish the five proposals as "permanent" Commission policy, rules, and tariffs subject to change that unlocks more widespread microgrid development instead of taking an overly cautious approach with temporary exemptions, caps, and pilots. By its nature and given the challenges of "getting it right" from the onset, all policies, rules, and tariffs are already "temporary" since they are refined over time.

To the degree reasonable, CESA encourages the Commission to remove these limitations from four of the five proposals.[1] In these reply comments, CESA also focuses on the following specific areas:

- Proposal 2 represents just a first step in commercializing microgrids.
- Microgrids should not be characterized as departing load.
- The broader grid benefits should be quantified and compensated within the proposed rate schedule for microgrids.
- Given the focus of the proposed pilots, the pilot program costs should not be allocated only among direct beneficiaries but among all customers in an investor-owned utility ("IOU") area.
- Pilot program proposals should support the greatest number of disadvantaged customers.
- Proposal 5 should be maintained in Track 2.

II. PROPOSAL 2 REPRESENTS JUST A FIRST STEP IN COMMERCIALIZING MICROGRIDS.

In opening comments, CESA expressed support for Option 1 considered under Proposal 2. This option is identical to the staff recommendation, Option 2, with the exception of a subscription limit of 10 microgrid projects across the entirety of the three IOU service territories. Like CESA, several parties stated support for eliminating the subscription limit and noted the need to include critical facilities regardless of ownership into the scope of this modification.[2] CESA echoes these statements, as these modifications would have more substantial impact in the broader context of enabling the commercialization of microgrids.

It is relevant to address some concerns raised by parties opposed to the adoption of Option 1. In opening comments, Pacific Gas & Electric ("PG&E") expressed support for the Staff's

---

[1] CESA views Proposal 5 as being appropriately positioned as a pilot.

[2] *See* opening comments of the Biofuel Association of California ("BAC"), Bloom, the California Solar & Storage Association ("CALSSA"), the California Clean DG Coalition ("CCDG"), Enchanted Rock, Southern California Gas Company ("SoCalGas"), the Utilities Consumers' Action Network ("UCAN"), Sierra Club, Vote Solar, The County of Los Angeles ("LA County"), and the Joint Community Choice Aggregators ("Joint CCA Parties"), among others.

recommendation, stating that it "does not support broader modifications to its Rule 18 than those described in Option 2, as broad exemptions could raise significant public safety concerns and unreasonable rate arbitrage opportunities."[3] This position is unsubstantiated, considering both Options 1 and 2 contemplate that the provision of electric power by the microgrid to its adjacent premise would only occur during outage conditions, requiring the installation of devices that prohibit the microgrid from operating in parallel of the service line between the premises.[4] In this sense, both operational and gaming risks are substantially reduced. As such, an expansion of the scope of Proposal 2 would not entail greater safety or gaming risks.

The adoption of Option 1, while preferable relative to Option 2, should only represent a first step to further the commercialization of microgrids, particularly those categorized under Types III and IV. As such, CESA is supportive of the comments urging the Commission to consider modifications that address the issues related to Public Utilities Code ("PUC") Section 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. In particular, CESA supports the proposals made by Sunrun and Google. Sunrun recommends the Commission follow the pathway laid out within the Staff Concept Paper[5] – *i.e.*, the Commission could exercise its existing authority under PUC Section 2780 to exempt certain microgrids that would qualify as "electric microutilities" from onerous regulations that are generally applicable to all electrical corporations.[6] Google elaborates on this, highlighting that the Commission's reading of PUC Section 218 presents the issue as an upper limit on the distribution of power across properties rather than a regulatory safe harbor that could be expanded to support microgrid commercialization.[7] CESA echoes these positions and requests the Commission explore regulatory pathways, such as the ones mentioned by Sunrun and Google, that would enable a broader consideration of Type III and IV microgrids.

[3] PG&E at 9.

[4] Staff Proposal at 9-10.

[5] Sunrun at 5-6.

[6] *Ibid.*

[7] Google at 14.

III. MICROGRIDS SHOULD NOT BE CHARACTERIZED AS DEPARTING LOAD.

In opening comments, several parties urged the Commission to adopt Option 4 considered under Proposal 3, which would create a separate rate schedule for customer-sited, customer-facing microgrids composed of technologies that individually and collectively meet the requirements of Rule 21. Notably, Option 4 would not grant additional exemptions for cost responsibility surcharges ("CRS"), including the departing load charge ("DLC"). CESA does not support the application of DLC to microgrid customers as microgrid loads represent a *dynamic*, rather than departing load.

CESA found that some parties argued in favor of the application of DLC as microgrid customers would be leaving a utility to receive service from a different provider. The Public Advocates Office ("PAO") based its support of Option 4 using this logic, further noting that "exempting microgrids from non-bypassable charges, standby charges, and departing load charges would shift the cost of critical, universal programs and expenses to other ratepayers, in violation of SB 1339."[8] CESA believes this position mischaracterizes the relationship microgrids would have with the grid. Customers served by a microgrid would not cease to be customers of their respective LSE. While the microgrid is physically able to electrically isolate from the broader grid and continue providing service to its loads, microgrid customers are not in effect electing to leave their utility's service in favor of another alternative. Their decision only seeks to further the resiliency of their service at times when their LSE, for a variety of reasons, cannot serve them. Moreover, the characterization of microgrids as departing load omits the value their deployment represents for the broader grid. Microgrids are able to interface with the rest of the grid, providing excess energy and added flexibility. It is this virtue that makes them a dynamic load, just as customers providing demand response or storage devices are able to absorb and discharge energy when it is most needed. Thus, customers served by a microgrid are not in fact departing load and exempting them from DLC would not represent cost shifting.

Other parties raised administrative concerns over the application of CRS exemptions. PG&E maintained that cost responsibilities surcharge exemptions contemplated under Proposal 3 are not reasonable, impractical, and extremely difficult to implement.[9] PG&E argues this

---

[8] PAO at 11.

[9] PG&E at 18.

implementation is complex as the distinction between DLC and non-bypassable charges is not as distinct as Staff portrays, and in practice these charges behave more like one cost category.[10] CESA is unsure how these costs can be treated as a single cost category when PG&E has experience collecting these costs for both bundled and community choice aggregator ("CCA") customers. Furthermore, CESA does not consider the potential challenges of assigning and collecting costs correctly outweigh the need to do so. If further refinement of the CRS categories applicable is necessary, the Commission must revise the Staff Proposal to reflect the potential complications described by PG&E and ensure these costs are fairly adjudicated. CESA would welcome such a revision should be done in the context of assessing the net cost-benefit of microgrid deployment, an issue discussed in more depth in Section IV.

IV. THE BROADER GRID BENEFITS SHOULD BE QUANTIFIED AND COMPENSATED WITHIN THE PROPOSED RATE SCHEDULE FOR MICROGRIDS.

In opening comments, LA County requests the Commission determine a methodology to assess the avoided cost value to all ratepayers in an IOU's territory from microgrid projects developed to support or increase system reliability.[11] LA County explains that this methodology should consider microgrids as equivalent to non-wire alternatives ("NWA") to traditional utility capital investments for reliability and resiliency, which can also provide additional grid services such as Resource adequacy ("RA"), thus creating various benefits for all ratepayers.[12] CESA supports the spirit of these comments as it would better capture the potential positive externalities of microgrid deployment, ease the commercialization of these applications by monetizing their benefits, support the cost-effectiveness of ratepayer investments, broaden the accrual of resiliency benefits from just direct microgrid customers to system-wide grid benefits, and provide a numerical framework to net CRS allocations and ensure bundled customer indifference. Moreover, this methodology should include compensation for increased resiliency, a service not currently quantified and/or monetized. To devise such payment, CESA supports looking at the proposal submitted by the Microgrid Resources Coalition ("MRC") as a possible starting point.[13]

---

[10] *Ibid*.

[11] LA County at 8-9.

[12] *Ibid* at 15-16.

[13] MRC at 36-37.

Alternatively, or in addition to tariff development, barriers to enabling microgrids to participate in the wholesale market or be contracted for RA or other grid services should be addressed, as recommended by the California Independent System Operator ("CAISO").[14]

A new microgrid tariff would represent the best opportunity for the Commission to balance cost shifting concerns with the potential broader grid benefits that could be provided from microgrid projects in a simple and efficient way. Thus, CESA supports the Commission focus its attention for the remainder of 2020 to work with stakeholders in the development of a schedule to consider proposals on tariff structure and implementation.

V. GIVEN THE FOCUS OF THE PROPOSED PILOTS, THE PILOT PROGRAM COSTS SHOULD NOT BE ALLOCATED ONLY AMONG DIRECT BENEFICIARIES BUT AMONG ALL CUSTOMERS IN AN INVESTOR-OWNED UTILITY ("IOU") AREA.

Proposal 4 relates to the establishment of a microgrid pilot program focused on underserved and disadvantaged customers across the three IOU service territories. In the Staff Proposal, Energy Division recommends a program that would be funded by the ratepayers from the same county the project is located in. In opening comments, several parties concurred with CESA that this funding approach could amplify existing inequalities.[15] While some parties favored the funding method recommended within the Staff Proposal, Southern California Edison ("SCE") suggests the funding of these programs should be solely recovered from the direct beneficiaries of the expected microgrid deployment.[16] Such a funding mechanism ignores the potential broader system benefits of microgrids and would certainly worsen the existing inequalities that have created the conditions for underserved customers to require additional investments in order to maintain a reliable power service. Far from facilitating microgrid commercialization and mitigating the reliability risks faced by disadvantaged Californians, SCE's proposal would in effect make it less feasible for these types of customers to consider a microgrid solution as the cost of doing so would prove prohibitive.

---

[14] CAISO at 3.

[15] *See* comments of the UCAN, PAO, Sierra Club, The Utility Reform Network ("TURN"), Wild Tree Foundation ("WTF"), Small Business Utility Advocates ("SBUA"), the Joint CCA Parties, GRID Alternatives, LA County, and the California Environmental Justice Alliance ("CEJA"), among others.

[16] SCE at 22.

Hence, CESA requests the Commission adopts Option 1 of the Funding Source category within Proposal 4.

VI. PILOT PROGRAM PROPOSALS SHOULD SUPPORT THE GREATEST NUMBER OF DISADVANTAGED CUSTOMERS.

In our opening comments, CESA supported adopting Option 2 of the Project Subscription Limit category contemplated under Proposal 4. This option would not establish a limit on the number of projects as long as they are able to meet commercial operation by January 2022. Moreover, CESA supported establishing a clear scoring prioritization system to disperse funding based on clear-need criteria instead of the staff-recommended first-come first-served approach. CESA continues to hold these views and considers the Commission should refine Proposal 4 per the comments submitted by Vote Solar and the Climate Center ("Joint Parties"). In their comments, the Joint Parties note that concentrating funds in only 15 projects that may cost $15 million each is not the most beneficial allocation.[17] Instead, the Joint Parties recommend that the Commission authorize more modest expenditures in the range of $1-3 million per project and allocate up to $225 million to 100 or more different communities that meet specific need-based criteria.[18] CESA supports the intent of this proposal, which should consider ways to leverage private capital co-investments that enable a larger number of microgrids and customers are supported. However, we recommend two modifications.

First, the Commission should maintain the criteria included in the Staff Proposal and include the median household income as an eligibility criterion, as suggested by the Rural County Representatives of California ("RCRC").[19] The inclusion of this factor could mitigate potential urban-rural biases other criteria may contain. Second, when selecting projects, the Commission should direct IOUs to prioritize those that use innovative technologies and/or serve customers with Type III or Type IV microgrids. CESA believes the Commission would better serve its goals by assigning funds to a broader set of projects which are focused on the implementation of innovative technologies or use-cases to ease the reliability risks of disadvantaged customers. These modifications would allow the Commission to do so more effectively.

---

[17] Joint Parties at 13.

[18] *Ibid* at 15.

[19] RCRC at 7.

VII. PROPOSAL 5 SHOULD BE MAINTAINED IN TRACK 2.

CESA disagrees with comments that Proposal 5 should be eliminated as being out of scope of this proceeding.[20] Importantly, this proposal was recognized in the Track 1 decision as having significant merit. Given the low-cost nature and potential immediate scalability of solutions being contemplated in Proposal 5, this proposal is well within the scope of this proceeding and would facilitate the commercialization of a certain microgrid type, which may be more accessible to many customers in a relatively quick timeframe and leverage many existing technology deployments. Proposal 5 should thus be maintained in Track 2 and pursued in accordance with Option 2.

VIII. CONCLUSION.

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

Respectfully submitted,

Alex J. Morris
Executive Director
CALIFORNIA ENERGY STORAGE ALLIANCE

August 28, 2020

[20] NFCRC at 12 and Schneider Electric at 9.