BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the Self-Generation Incentive Program and Related Issues.	Rulemaking 20-05-012 (Filed May 28, 2020)

COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE ADMINISTRATIVE LAW JUDGE'S RULING PROVIDING PROPOSAL, REQUESTING COMMENT, AND UPDATING PROCEDURAL SCHEDULE

Jin Noh
Policy Director

Grace Pratt
Policy Analyst

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

June 3, 2021

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the Self-Generation Incentive Program and Related Issues.	Rulemaking 20-05-012 (Filed May 28, 2020)

COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE ADMINISTRATIVE LAW JUDGE'S RULING PROVIDING PROPOSAL, REQUESTING COMMENT, AND UPDATING PROCEDURAL SCHEDULE

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the California Energy Storage Alliance ("CESA") hereby submits these comments on the *Administrative Law Judge's Ruling Providing Proposal, Requesting Comment, and Updating Procedural Schedule* ("Ruling"), issued by Commissioner Clifford Rechtschaffen on April 16, 2021.

I. INTRODUCTION.

The Self-Generation Incentive Program ("SGIP") aims to support three key program goals around greenhouse gas ("GHG") emissions reduction, provision of grid services, and advancing market transformation, which has led to a number of Commission decisions to refine the program over time, including with the issuance of D.19-08-001 to implement new GHG requirements for energy storage resources, among other things. In addition to these core tenants, the Commission has also recently emphasized key program priorities around increasing access of energy storage technologies to low-income customers and those located in disadvantaged communities ("DACs") as well as supporting the deployment of energy storage for resiliency for customers with the greatest immediate need for energy storage, in light of the growing wildfire risks and use of proactive Public Safety Power Shut-off ("PSPS") events to mitigate these risks over the past couple years. These timely issues resulted in the establishment of a new Equity Resiliency Budget ("ERB") to support this high-priority use case and the increase in the Equity Budget ("EB") incentive rate to support energy storage deployment for this customer segment.[1]

With these goals and priorities in mind, the Commission has historically balanced these considerations to support funding allocation decisions, most recently with the issuance of D.20-01-021 to distribute fund collections authorized through Senate Bill ("SB") 700.[2] As the Commission explains, "the key criteria to determine allocation of 2020 to 2024 ratepayer funds are anticipated customer demand and need, and community benefits," leading to the majority of available fund collections to be directed to eligible ERB customers.[3] However, the Commission has also been cognizant of observed and/or anticipated market demand to support allocation decisions, where strong uptake in the energy storage budgets have led to the majority of past additional fund collections being directed toward energy storage technologies over generation technologies, such as in D.16-06-055 and D.17-04-017. Most recently, the Commission readjusted funding allocations via budget transfers from the Generation Budget to the ERB in D.19-09-027 and from the Large-Scale Storage Budget to the EB in D.20-10-017. Regarding the most recent budget transfer, the Commission considered new facts as evidenced by the waitlists in the EB categories and the slow demand of the Large-Scale Storage Budget to justify the budget transfer.[4]

In addition to the principles expressed in these past decisions, CESA recommends that the Commission also consider the long-term health and robustness of the behind-the-meter ("BTM")

[1] D.19-09-027 at Findings of Fact ("FOF") 21 and 23.

[2] D.20-01-021 at Conclusion of Law ("COL") 3 and 6 and Ordering Paragraph ("OP") 6.

[3] D.20-01-021 at 15-16 and at FOF 5-6.

[4] D.20-10-017 at FOF 5-6, 8 and 11-12.

energy storage market as the Commission considers the use of unallocated funds from accrued interest. SB 700 funds involved collections through 2024 and should thus, to some degree, the Commission should stretch the use of additional funds over the next few years and across many more projects. To this end, CESA recommends the following funding allocations of the accumulated interest that is not attributable to any specific budget category. In our view, this proposal balances the multitude of objectives and protects a healthy long-term BTM energy storage market, supports a wide range and number of energy storage projects, dedicates the majority of funds to eligible Equity customers, takes into account demand levels as evidenced by observed reservations, waiting lists, and project cancellation rates, and preserves optionality to adjust allocations in the future if needed and appropriate.

Table 1: CESA's Proposed Funding Allocation of SGIP Accumulated Interest

Budget Category	Percentage Funding Allocation
Equity Resiliency Budget	20%
Non-Residential Equity Budget	20%
Residential Equity Budget	15%
Small Residential Storage	15%
Large-Scale Storage	30%

In these comments, CESA also recommends that the funding allocation issue be decoupled from the consideration of the HPWH Staff Proposal and the Technical Working Group recommendations related to SGIP process streamlining, with a decision made earlier than the tentatively planned August or September 2021 timeline.[5] These are wholly different and separate issues, and a funding allocation decision as soon as possible would also support near-term project development, particularly for those that are waitlisted in the EB and ERB. Finally, CESA

[55] Ruling at 7-8.

comments in general support of the HPWH Staff Proposal, with several high-level responses below.

II. RESPONSES TO QUESTIONS ON UNSPENT FUNDS.

Based on the PA filings on May 19, 2021 on their respective updated budgets, CESA understands that approximately $66-million of funds are unallocated as accumulated interest and is available for allocation to specific budget categories:

Table 2: SGIP Accumulated Interest by Program Administrator[6]

Program Administrator	Accumulated Interest
CSE	$3,729,065
PG&E	$17,900,163
SoCalGas	$4,610,504
SCE	$40,384,000
Total	**$66,623,732**

The $66 million in total accumulated interest represents a significant amount that can support multiple objectives and priorities of the program. As explained further below, CESA's proposal is focused on the allocation of the accumulated interest, which has no allocation rules or formula at this time, in contrast to those in place for forfeited application fees or other funds attributable to particular budget categories.

Question 2a: Should the Commission update the categories of budget reporting used by the SGIP Program Administrators to report their "Program Level Budget Summary" on selfgenca.com? If so, how should budget summary reporting be enhanced?

[6] *See* Advice 4435-G/6197-E of Pacific Gas and Electric Company ("PG&E"); Advice No. 126-E of Center for Sustainable Energy ("CSE"); *Response of Southern California Gas Company (U904G) Pursuant to Administrative Law Judge's Ruling Providing Proposal, Requesting Comment, and Updating Procedural Schedule* submitted by Southern California Gas Company ("SoCalGas") on May 19, 2021 in R.20-05-012; and *Southern California Edison Company's (U 338-E) Self-Generation Incentive Program Budget Information* submitted by Southern California Edison Company ("SCE") on May 19, 2021 in R.20-05-012.

CESA has no comment at this time.

Question 2b: **Should the Commission take other steps to ensure that the SGIP Program Administrators are providing full and complete transparency regarding the amount and disposition of accumulated unused SGIP funds? If so, what steps?**

CESA supports budget transparency and believes that the Commission has already created a reasonable reporting process in D.09-12-047, making this issue a matter of enforcing the existing rules and requirements in place. As outlined in the Ruling, D.09-12-047 already requires PAs to report on all aspects of the budgets, including the total authorized budget, total budget reserved, and carryovers, as well as forfeited application fees and accumulated interest.[7] As of now, CESA does not know of other monies that fall outside of the categories specified in D.09-12-047. If the PAs follow this template, there should be sufficient transparency for parties and the Commission to have insight into the status of SGIP budgets.

However, the Ruling highlights how the PAs have not been submitting budget reporting consistent with D.09-12-047.[8] CESA thus recommends that the Commission work with the PAs to address any barriers in reporting to ensure that all of these categories appear in PA monthly budget reports.

Question 2c: **Should the Commission allocate all accumulated unused funds identified by the SGIP Program Administrators in response to question 1 to the Equity Resiliency Budget? Should the Commission allocate any portion of the identified accumulated unused funds to other SGIP budget categories? If so, which ones? Please provide a justification for your response.**

CESA believes that forfeited application fees should be returned to the budget category where the application was submitted. This has already been specified in the SGIP Handbook, and

[7] Ruling at 4-5.

[8] Ruling at 5-6.

the PAs have already begun to distribute those funds back to their appropriate budget categories.[9] CESA also understands that PG&E is currently evaluating additional unallocated funds from Pre-2017 reserved and performance-based incentive ("PBI") payments in process that might become available for reallocation.[10] In this situation, and any others where unused funds are attributable to a specific budget category, CESA recommends that the funds be distributed back to that original budget category, similar to what is done for forfeited application fees.

For accumulated unused funds that did not originate in specific budget categories, namely the $66 million in accumulated interest as tallied in Table 2 above, CESA recommends that the Commission allocate 20% of these funds to the ERB, 20% to Non-Residential EB, 15% to Residential EB, 15% to Small Residential, and 30% to Large-Scale. This recommendation is summarized in Table 1 above and detailed further in Table 3 below.

---

[9] PG&E's Advice 4435-G/6197-E in Attachment 1 specifies that forfeited application fees were returned to their appropriate budget categories after 3/31/21. CSE's Advice No. 126-E at 7 specifies that, "Application fees are allocated back to the categories in which the original project was submitted. *Southern California Edison Company's (U 338-E) Self-Generation Incentive Program Budget Information* at A1 specifies that forfeited application fees were returned to their appropriate budget categories on 5/12/21.

[10] PG&E's Advice 4435-G/6197-E in Attachment 1 states that the category of Unallocated Funds includes both accumulated interest as well as unused Pre-2017 reserved and PBI in process funds "which PG&E is evaluating."

Table 3: CESA's Proposed Funding Allocation of SGIP Accumulated Interest[11]

Budget Category	Percentage Additional Funds	Accumulated Interest Distributions	Additional kWh funded	Additional kW funded	Number of Additional Projects funded
Equity Resiliency	20%	$13,324,746	13,325	3,944	212
Non-Residential Storage Equity	20%	$13,324,746	15,676	4,539	12
Residential Storage Equity	15%	$9,993,560	11,757	3,373	73
Small Residential Storage - Step 6	15%	$9,993,560	49,968	15,927	2,484
Large-Scale Storage - Step 4	30%	$19,987,120	66,624	22,284	124
Total	**100%**	**$66,623,732**	**157,350**	**50,067**	**2,905**

Our proposal is justified for multiple reasons.

First, regarding the allocation between the energy storage and generation budget categories, CESA does not recommend adding additional funds to the Generation Budget or the HPWH set-aside, which is reasonable given that the former has largely been suspended for the past year and has seen little uptake[12] while the latter has not yet begun.[13] Due to the sufficiency of funds in the Generation Budget and the HPWH set-aside and no new facts from observed market demand data, it is rational to dedicate all of the accrued interest to the five energy storage budget categories, in line with demand-based allocation decisions in the past (*e.g.*, D.16-06-055, D.21-01-021).

[11] Deployment potential was calculated based on the average kW and kWh capacity of projects in each budget category across the 2020-2021 period based on the SGIP Public Real-Time Report downloaded on 5/27/21.

[12] According to the SGIP Program Metrics page (https://www.selfgenca.com/home/program_metrics/) as of June 2, 2021, around $14.7 million out of the $110 million in available, allocated, and rollover funds (or 13%) has been reserved over a 240-day period, demonstrating limited market demand. While barriers, project lead time, and regulatory uncertainties could be playing factors here, it stands that additional funds are not needed if the current sufficient funding level is not being reserved or deployed.

[13] Until the new program rules and requirements are actually implemented and market response is initially observed, there is no reason for the Commission to reconsider their initial $44-million set-aside of HPWH with additional funds.

Second, regarding the allocation of accrued interest among the energy storage budget categories, CESA's proposal was motivated by equally allocating the funds across each of the five categories (*i.e.*, 20% each) in order to support the Commission's priorities and goals to advance the market transformation of all customer segments. This is important to support a healthy and robust long-term BTM storage market. Because of the relatively small size of residential storage projects, CESA lowered the percentages for the Residential EB and the Small Residential Storage categories by 5% (*i.e.*, resulting in 15% each) and redistributed this amount to the Large-Scale Storage category (*i.e.*, resulting in 30%). With this roughly equal distribution, CESA believes that the Commission's goals of supporting longer-term growth of the energy storage market is supported while still dedicating the majority of funds to Equity customers. With 20% to the ERB, 20% to the Non-Residential EB, and 15% to the Residential EB under our proposal, Equity customers would still receive the majority of allocated funds (55%), aligning with the Commission's priorities to advance the program for low-income and DAC customers.

However, the Question 2c in the Ruling suggests that the Commission may be considering having all of the accrued interest be directed to the ERB. Though generally supporting the Commission's prioritization of SGIP funds being used to deploy energy storage for resiliency purposes and for the customers in greatest need, CESA believes it is in the interest of the long-term viability of the program to allocate a portion of the funds to general-market customers since a greater number of projects can be supported based on their lower incentive rates and across a longer period of time, allowing for market transformation through the 2021-2025 period rather than immediately exhausting all of these funds by solely allocating funds to clear the EB and ERB waitlists. If all of these available funds are allocated to support the EB and ERB waitlists, then the program faces prospects of having limited or no funding over a longer period of time (*i.e.*, beyond

2021). As shown in Table 3 above, having 45% of the available funds allocated to general-market funds have the potential to support over 2,500 additional projects and over 35 MW of energy storage projects[14] – many-fold more than would be supported through EB and ERB funds. Essentially, every dollar toward general-market storage projects will yield three to five times more storage capacity than if the same dollar is allocated to the EB or ERB, such that *some* portion of these funds should be allocated to general-market projects to balance equity and resiliency priorities with long-term and large-scale transformation of the energy storage market at large. Supporting energy storage projects over a longer period of time may also have measurement and evaluation benefits to understand how the energy storage market (*e.g.*, capital costs) evolves over time.

Furthermore, despite the Commission's potential concerns with allocating funds to the general-market over the higher-priority EB or ERB categories, optionality is preserved by CESA's proposed allocations for the general-market funds. Newly allocated funds for ERB projects, for example, are unlikely to lead to projects that can immediately deliver resiliency ahead of the 2021 wildfire season. Therefore, the Commission has some time to assess whether to allocate all or a substantial portion of these available funds prior to the 2022 wildfire season. Time may also be beneficial to begin collecting data and consider whether to adjust the incentive rate for ERB projects to still support the economic viability of these projects while calibrating the rate to support a greater number of ERB projects. Based on the rapid depletion of ERB incentives, CESA believes that this type of investigation may be beneficial to enable the broadening of the benefits of ERB

[14] The deployment potential was calculated based on the average kW and kWh capacity of projects in each budget category across the 2020-2021 period, which reflects the most recent market trends regarding sizing and configurations. Average numbers for projects will overlook the variety of project designs, but this is intended to provide orders-of-magnitude estimates of the deployment potential. Note that CESA observed some data entry errors for a small number of projects, which were omitted from the analysis.

projects from additional allocation of funds. With the general-market budget categories seeing steady (not rapid) uptake, the Commission preserves the ability to later transfer funds, as done in D.20-10-017, upon investigating adjustments to the ERB incentive rate. This is not always advisable since long-term budget stability is necessary to encourage market participation and support longer lead-time project development cycles, but there is some optionality that is preserved by better calibrating how best to address the Commission priorities.

At the same time, CESA's proposal would still be supporting some portion of EB and ERB projects with 55% of available funds being directed to these types of projects. The waitlists for the EB and ERB clearly underscore the demand for these types of projects, which has been used as evidence to support funding allocation decisions in the past. To make the SGIP funds used and useful, it makes sense to allocate some of the available funds to support these shovel-ready projects to help deploy energy storage projects to Equity customers and those in greatest need of resiliency – a clear priority for the Commission. For similar reasons, CESA submitted a Petition for Modification ("PFM") of D.20-01-021 and D.16-06-055 to request a budget transfer to the more than $300-million EB waitlist, leading to the Commission granting this request in part via D.20-10-017. On the other hand, CESA believes that the budget transfer has served its purpose in supporting one-third of the waitlists at the time, which resulted from the minimal allocation to the EB categories due to the lack of available data at the time of D.20-01-021 adoption. A narrow focus on following immediately evident market demand would also not likely clear waitlists and leave nothing for the other storage budget categories. Additionally, the ERB and EB categories have larger cancellation rates compared to the general-market budgets, suggesting that some portion of the existing funding allocation will be recycled in those budget categories to incrementally clear some of the waitlisted projects.[15]

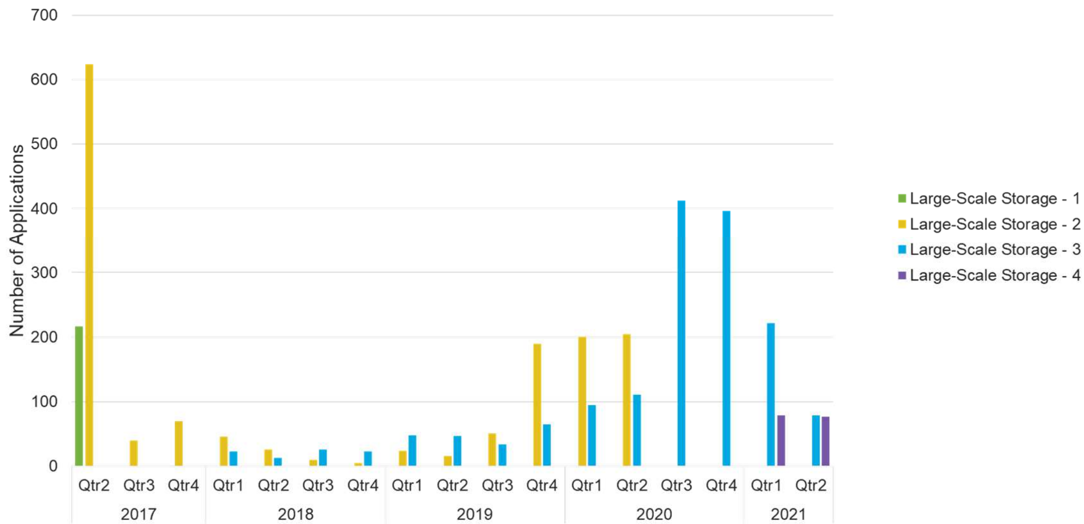
Importantly, the Commission took this balance into account in leaving funds in each budget category rather than clearing the waitlist.[16] In light of the budget transfer, it is also reasonable to partially replenish the Large-Scale Storage Budget, having served its purpose to support some portion of shovel-ready EB projects as well as for starting to see market uptake in recent months. The Commission justified the budget transfer based on the low demand observed in the Large-Scale Storage Budget,[17] but the low application activity in the Large-Scale Storage Budget is no longer the case, such that it is reasonable to allocate CESA's proposed 30% portion to this budget category. In addition, it is important to note that large thermal energy storage ("LTES") projects are still facing barriers to participate in the program and the Large-Scale Storage Budget in particular, where the advice letter implementing the LTES dynamic baseline methodology adopted in Resolution E-5106 is still pending disposition. It would be extremely disappointing for LTES projects to finally become eligible after more than three years of pending resolution of various measurement and valuation issues, only to have there be insufficient funds in this budget category.

[15] The data shows an estimated cancellation rate of 21% for the ERB and 41% of the Non-Residential EB, calculated based on the incentive amount of canceled applications over the total incentive amount of canceled and reservation applications. There are likely caveats to these cancellation rates, as the ERB cancellation rates could be partially attributable to the complex eligibility criteria, narrower qualification criteria, newness of the ERB, and regulatory changes and uncertainty. Meanwhile, the Non-Residential EB cancellation rate may be partially attributable to the sustained lack of funds available and the fact that the budget transfer pursuant to D.20-10-017 is being perceived as a one-time act.

[16] D.20-10-017 at FOF 12.

[17] D.20-10-017 at FOF 11.

Figure 1: SGIP Large-Scale Storage Applications Over Time[18]



Finally, CESA urges the Commission to bifurcate the resolution of the allocation of unspent funds from the decision on HPWH program participation and processes. These are wholly distinct issues, where the allocation decision can be more readily addressed at an earlier time. Especially with the HPWH program modification process has taken longer than expected, CESA is concerned about potential delay of the unspent funding allocation issue even beyond the planned August or September 2021 timeline. Instead, we recommend that the unspent funding allocation issue be resolved through a separate decision in July 2021.

<u>Question 2d</u>: Do you have any additional recommendations regarding management of SGIP budgets?

CESA seeks clarification from the Commission on whether unspent funds issues, such as those from accrued interest, will be a recurring issue. If so, the Commission should contemplate whether the Commission wishes to periodically determine funding allocations of these funds on

[18] SGIP Public Real-Time Report downloaded on 5/27/21.

an ad hoc basis as these funds accumulate, or whether the Commission wishes to establish "formulaic" rules to automatically allocate them over time.

III. RESPONSES TO HEAT PUMP WATER HEATER STAFF PROPOSAL.

CESA commends the Commission staff for the thoughtful and detailed Staff Proposal prepared for HPWH participation in SGIP, with key considerations to support their eligibility and application process. For example, staff smartly recognizes the differences in HPWH installation, which stands in contrast to the "project development" process by which battery energy storage systems are contracted/sold and interconnected. In doing so, the proposed point-of-installation program design reasonably recognizes these differences, while also incorporating common elements applicable to other technologies to ensure a level playing field, advance the program's goals and priorities, and support market transformation.

In our responses to the questions below, CESA does not offer detailed comments on many of the specifics of the Staff Proposal, but we highlight three key high-level points for consideration by Commission and staff.

A. Requiring load-shifting capabilities from HPWHs will encourage innovation and ensure the provision of functional thermal energy storage.

CESA supports the Staff recommendation that all HPWH have load-shifting thermal energy storage capabilities. As outlined in the Staff Proposal, Public Utilities Code § 379.6(e) requires that SGIP eligible technology "shifts onsite energy use to off-peak time periods or reduces demand from the grid by offsetting some or all of the customer's onsite energy load, including, but not limited to, peak electric load."[19] For the majority of customers switching to a HPWH from a

[19] https://codes.findlaw.com/ca/public-utilities-code/puc-sect-379-6.html

gas water heater,[20] load-shifting capabilities are necessary to comply with demand reduction requirements[21] and to ensure that SGIP incentives are awarded to HPWHs as an eligible thermal energy storage technology, as opposed to supporting energy efficiency investments.[22]

Because incentives are being given for thermal storage capabilities, CESA supports the inclusion of the JA-13 management systems and a CTA-2045 Compliant Communication Port for HPWHs receiving SGIP incentives. These requirements will ensure that HPWHs are *capable* of load shifting and follow GHG reduction requirements applicable to all energy storage technologies.

B. The inclusion of panel upgrades in HPWH incentive structure is reasonable and will encourage adoption.

CESA supports providing incentives for HPWHs to reduce cost barriers to adoption. Currently, ERB and Equity budget customers are eligible to include electric panel upgrade costs in total SGIP project costs and receive incentives to offset those costs.[23] Including incentives for electric panel upgrades for HPWHs is therefore consistent with previous allocations. SGIP incentives for enabling infrastructure such as electric panel upgrades should be considered if new technologies such as vehicle-to-grid ("V2G") are added in the future.

---

[20] 90% of California uses gas water heaters.
See, e.g.: https://www.synapse-energy.com/sites/default/files/Decarbonization-Heating-CA-Buildings-17-092-1.pdf

[21] Staff Proposal at 33.

[22] *See* D.19-09-027 at 98: "HPWHs need not generate electricity to be eligible for SGIP incentives as these technologies are operated as a type of energy storing and load-shift technology. We are aware that energy efficiency or other programs offer and may expand incentives for HPWHs but observe that SGIP is concerned with load-shifting and other storage technology services, not energy efficiency."

[23] SGIP Handbook at 29.

C. Having a single statewide program administrator simplifies and streamlines the incentive application, processing, and monitoring process.

CESA agrees with the Staff Proposal's assessment that having a single, statewide program administrator ("PA") to administer HPWH funds will support efficient and timely processing of SGIP applications for HPWHs. CESA also agrees that "a statewide PA/PI organizational structure through a single entity will simplify program execution, enable better coordination with other HPWH incentive programs, reduce administrative costs, maximize ratepayer benefits, and catalyze market transformation."[24] Recognizing the benefits of a single statewide PA, CESA recommends that the Commission consider adopting a similar centralized structure for all other budget categories in the future. At this stage, moving toward a structure may take some time and may have limited utility with funds for energy storage technologies being limited and administrative structures and staff already in place, but if funds are added, this may be a structure that should be considered in the future.

IV. CONCLUSION.

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

Respectfully submitted,

Jin Noh
Policy Director
CALIFORNIA ENERGY STORAGE ALLIANCE

Date: June 3, 2021

[24] Staff Proposal at 61.