

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

Order Instituting Rulemaking to
Modernize the Electric Grid for a High
Distributed Energy Resources Future.

Rulemaking 21-06-017
(Filed June 24, 2021)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON 2022
DISTRIBUTION INVESTMENT DEFERRAL FRAMEWORK REFORMS**

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April 4, 2022

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In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”) hereby submits these comments on annual 2022 reforms to the Distribution Investment Deferral Framework (“DIDF”) pursuant to *Resolution E-5190: Approval, with Modifications, of Evaluation Criteria for the Partnership Pilot and Standard Offer Contract Pilot Pursuant to Decision 21-02-006* (“Resolution E-5190”), issued on January 27, 2022. Pursuant to further clarifications and guidance provided by the Commission Energy Division (“ED”) staff, CESA also aims to rank proposed reforms in order of importance for near-term versus longer-term implementation.

I. INTRODUCTION.

As our electric system undergoes massive amounts of change in the coming decades, forecasted grid infrastructure investments have grown substantially at the transmission and distribution levels to accommodate clean energy, growing load from transportation electrification (“TE”) and building electrification (“BE”), and wildfire mitigation needs. In order to achieve California’s environmental goals while maintaining electric reliability and resiliency on both a system and local level, a variety of tools will be needed to allow our grid to accommodate increased generation and load. In the electric toolkit, DIDF represents an important mechanism to cost-

effectively defer distribution investments to maintain reliability while providing ratepayer savings. Since its launch in 2018, DIDF has successfully procured distributed energy resources (“DERs”) to meet distribution needs and defer wire investments in those areas through a traditional Requests for Offers (“RFO”) that largely procured in-front-of-the-meter (“IFOM”) energy storage projects. In 2021, DIDF was expanded to include two new pilots: (1) the Partnership Pilot to better consider how behind-the-meter (“BTM”) resources can provide distribution deferral; and (2) the Standard Offer Contract (“SOC”) Pilot to standardize contracts and streamline processes to help facilitate procurement. Both of these pilots were launched in Q4 of 2021, with Pacific Gas and Electric (“PG&E”) successfully in negotiations for their first SOC project¹ and all investor-owned utilities (“IOUs”) with active Partnership Pilot projects.

In parallel, the Commission recently opened Rulemaking (“R.”) 21-06-017 to modernize the electric grid for a future with a high deployment of DERs. This proceeding will consider a wide variety of issues affecting DERs, including discussion on and consideration of distribution system operator (“DSO”) models, grid modernization, load and electrification forecasting, and distribution system planning. Included in this proceeding is a discussion of how to improve the DIDF to better align with IOU Distribution Planning Processes (“DPPs”). Overall, CESA looks forward to discussing both incremental and broader reforms to DIDF in this proceeding.

In these comments, we focus on incremental reforms in support of the 2022-2023 DIDF cycle and continuation of the recently-launched pilots. At the same time, we observe the need to consider broader reforms to the DIDF in R.21-06-017 as DPP topics are discussed. In particular, given the history of the DIDF and subsequent procurements, CESA believes that the DIDF should

¹ *Independent Evaluation Interim Report for Pacific Gas & Electric’s 2021 Distribution Investment Deferral Framework Request for Offers and Standard Offer Contract Tariff Pilot* prepared by Sedway Consulting, submitted February 14, 2022 at 1.

be reframed and reprioritized for a particular set of conditions, approaches, and needs, where it could more narrowly and strategically target larger-scale and higher-cost projects (*i.e.*, “biggest bang for buck”) as well as “policy-driven” projects similar to what is currently done in the California Independent System Operator’s (“CAISO”) Transmission Planning Process (“TPP”) to accommodate future generation resources. On the latter point, there may be opportunities to proactively procure DERs in the DIDF process, knowing that significant BE/TE investments need to be made and accommodated, even if they are not incorporated as immediate known loads in the forecast. Additionally, with BE and TE being driven in large part by Commission programs, there could be opportunities, for example, to develop new approaches that synergize with these programs to incorporate and compensate load-shifting capabilities from the BE/TE technologies itself (*e.g.*, vehicle-grid integration, grid-interactive heat pumps) or to incorporate and compensate incremental DERs (*e.g.*, energy storage) with such capabilities as part of the DPP, such that they do not arise as distribution grid needs to be mitigated by traditional “wires” investments but rather already addressed through planning assumptions and as part of the initially proposed solution set.

In other words, rather than using the DIDF process and the deliverables for all potential distribution grid needs, as done today with the Grid Needs Assessment (“GNA”) and Distribution Deferral Opportunity Report (“DDOR”), there could a means to focus the DIDF and Distribution Planning Advisory Group (“DPAG”) to a narrower set of conditions and needs where DER procurement would be feasible and a better fit and present cost savings to ratepayers, as well as innovative opportunities to reflect DERs as part of a modified load forecast. Unlike some stakeholders in R.21-06-017 who have voiced abandoning the DIDF, CESA believes that the DIDF could be repurposed for the right type of distribution grid needs, which may also serve to utilize Commission, utility, and stakeholder time and resources more efficiently and effectively. The

DIDF and DPAG have been valuable for fostering greater transparency of distribution grid needs and understanding of the current DPP, but those benefits in itself are not proportionate with the time and resources put into them if they yield limited tangible outcomes, such as in the form of DER procurement where it ensures reliability and delivers cost savings. While we recognize that DER procurement is not a goal in itself, the lack of market participation in the solicitation opportunities highlights some of the flaws of the current approach to identify opportunities that would animate the marketplace for alternative solutions to achieve the aforementioned goals of the DIDF.

Notwithstanding this request for broader reforms, we offer the following recommendations on some incremental reforms for consideration in support of the 2022-2023 DIDF cycle:

- Excess Performance Payment funds in the Partnership Pilot should be rolled over to subsequent tranches.
- SOC Pilot solicitations should include longer windows between the RFO launch and the offer due date to allow for more robust participation.
- Likelihood of connecting electric vehicle (“EV”) chargers or other loads should not be penalized in Forecast Certainty Scores.
- Improvements in understanding of electrification impacts or distribution forecasting identified in Phase 1 of R.21-06-017 should be incorporated into DIDF.

Importantly, considering the two recently-launched pilots are still in their first year of implementation, we recommend continued monitoring, evaluation, and refinement of the various DIDF approaches, even as the broader reforms are discussed and considered in R.21-06-017.

II. EXCESS PERFORMANCE PAYMENT FUNDS IN THE PARTNERSHIP PILOT SHOULD BE ROLLED OVER TO SUBSEQUENT TRANCHES.

Currently, there is an open question surrounding the treatment of excess funds that could emerge from tranches in the Partnership Pilot. In the current structure of the Partnership Pilot, 50% of the budget is reserved for performance payments, with \$/kWh payments based on the expected number and duration of performance calls for a particular tranche. However, if there are fewer or shorter performance calls than expected, there could be funds remaining in the Performance Budget at the end of the tranche. Discussions surrounding the treatment of these funds were held in the 2021 DPAG meetings, and in their original implementation Advice Letters, the IOUs discussed treatment of these funds. Originally, PG&E proposed to roll over all excess funds to the subsequent tranche's total budget; any excess funds after the 5-year pilot would be returned to ratepayers. Southern California Edison Company ("SCE") and San Diego Gas and Electric Company ("SDG&E") similarly proposed rollovers but only until the total subsequent tranches' budgets are 100% of the deferral value for any given tranche; any excess funds after all tranche budgets reach 100% of their deferral value would be returned to ratepayers. However, in response to protests by Cal Advocates and follow-up conversations with Energy Division ("ED") staff and CESA, the IOUs modified their implementation Advice Letters to remove all language surrounding the treatment of excess funds. Given that the earliest performance year for the Partnership Pilot is 2024, ED staff directed parties to discuss this issue in these comments.

Overall, CESA continues to advocate for rolling over any and all excess funds to subsequent tranches of the Partnership Pilot to give the IOUs extra flexibility in setting budgets to create a successful deferral for the duration of the pilot. In all DIDF procurements, whether through a traditional DIDF RFO, the SOC Pilot, or Partnership Pilot, the cost-effectiveness of any DER is determined by the cost of the wires solution it is replacing. For the Partnership Pilot, proposed

deferrals are designed to last 5 or more years; therefore, it is appropriate to consider cost-effectiveness of the pilot across the duration of the pilot. In this sense, the Partnership Pilot is designed to be cost effective across its duration, given that the total deferral budgets are set at 85% of the deferral value or cost of the wire solution. Movement of funds between tranches does not change the total budget for any given project. In fact, SCE has already proposed tranche budgets that differ from deferral values in a particular year using their Proportional Smoothing approach, which reallocates funding between tranches to ensure more even \$/kW payments across the projects and avoid decreasing payments that disincentivize continuous customer participation. However, with rolling over funds from any tranche, even if a particular project in the Partnership Pilot is cancelled, cost-effectiveness of at least 85% compared to the wire solution for those years will still be maintained from the tranches that were successfully executed since funds are only rolled over from previous tranches that outperformed on costs.

Focusing on ratepayer savings is an important aspect for any distribution deferral project or procurement and is emphasized as a guiding principle in D.21-02-006.² However, in order to achieve the greatest cost savings, all parties should work towards ensuring the Partnership Pilot is successful, which will provide a 15% cost savings to ratepayers, at a minimum. By rolling funds over to subsequent tranches, IOUs and DER providers will have additional ability to incentivize enrollment and achieve a successful deferral. This will especially be helpful for projects that experience decreasing \$/kWh reservation or performance payments. Currently, only SCE is deploying a Proportional Smoothing payment design; however, PG&E will likely also experience decreasing \$/kWh performance payments across the pilot, and it is unclear but possible that

² D.21-02-006 Findings of Fact (“FOF”) 26.

SDG&E will as well.³ CESA anticipates that decreasing payments will discourage continued participation in the pilot and therefore encourages rollover of excess funds, where available, to achieve greater parity between tranches.

While discussion of excess funds is an important topic, it is likely that not every project will have excess performance payment funds to rollover. Instead, there will be some projects that use performance budgets to different degrees and projects that use their entire performance budget. Given that this is a pilot, observing the effects on payment amounts and customer participation trends among projects that have rollover and those that do not will provide valuable insights that should be considered in the pilot evaluation. Having a wide variety of different projects, grid needs, and payment structures is an important part of this pilot, given that gathering more data will allow for smarter program design if the Partnership Pilot is successful and permanent deferral programs are created. In this sense, rolling over excess funds adds additional data to the pilot, without compromising cost-effectiveness of the pilot as a whole.

III. SOC PILOT SOLICITATIONS SHOULD INCLUDE LONGER WINDOWS BETWEEN THE RFO LAUNCH AND THE OFFER DUE DATE TO ALLOW FOR MORE ROBUST PARTICIPATION.

In September 2021, each of the three IOUs offered one candidate project for the SOC pilot. While all of the IOUs released RFOs on September 15, 2021, they each had different windows for participants to submit offers, with offer due dates of: October 15, 2021 for SDG&E; November 15, 2021 for SCE; and January 5, 2022 for PG&E. In response, SDG&E received no offers for their project, SCE received one offer that was rejected, and PG&E disclosed that they are in the

³ SDG&E has only release data on grid needs and tranche budgets for one tranche of their Partnership Pilot deferral opportunity at circuit 832 connecting to the North City West substation. See SG&E Advice Letter 3895-E-A, *Supplemental: San Diego Gas & Electric Company's Request to Launch Subscription Period for Cycle One of the Partnership Pilot Pursuant to Decision 21-02-006*, submitted December 13, 2021.

process of contracting for their SOC pilot, with participants shortlisted at this stage.⁴ Overall, CESA was disappointed to see only PG&E find a somewhat robust response in their SOC.

To help future SOC cycles achieve successful deferral, CESA recommends that all IOUs, but particularly SDG&E and SCE, extend their offer acceptance windows to allow additional projects to be developed, particularly given additional time needed to gain site control. Given that DIDF looks to defer specific grid investments, DERs looking to defer an investment must interconnect at a very particular locations, leading to limited land that can be used to develop these projects. As stated in the SCE SOC RFO IE Report, “During the complete and conforming process, the bidder identified some challenges with operating in the solicitation guidelines. Primarily, site control seemed to be a major challenge.”⁵ In response to this challenge, Merrimack recommends that SCE “provide land or identify potentially available land,”⁶ which CESA supports where feasible, so long as such an approach is not at the exclusion of third-party-owned projects. However, additional time to gain site control will also help developers submit more viable offers in response to RFOs. In fact, CESA raised this point of feedback with PG&E, who heeded our advice and extended their offer due date by two months.⁷ Although PG&E’s offers for the SOC Pilot were due almost two months after the due date for traditional RFO, PG&E was able to submit transactions at the Commission for the SOC Pilot on the same date as the RFO.⁸ Given this

⁴ *Independent Evaluation Interim Report for Pacific Gas & Electric’s 2021 Distribution Investment Deferral Framework Request for Offers and Standard Offer Contract Tariff Pilot* prepared by Sedway Consulting, submitted February 14, 2022 at 1.

⁵ *Southern California Edison 2021 Distributed Energy Resources Standard Offer Contract Request for Offers Independent Evaluator Report* prepared by Merrimack Energy Group, Inc., submitted on February 14, 2022, at 42.

⁶ *Ibid.*

⁷ *Independent Evaluation Interim Report for Pacific Gas & Electric’s 2021 Distribution Investment Deferral Framework Request for Offers and Standard Offer Contract Tariff Pilot* prepared by Sedway Consulting, submitted on February 14, 2022, at 4.

⁸ *Ibid.*

expedited timeline for executing transactions, CESA believes that extending the window of offers can be done without compromising the ability of contracts to be executed in a timely manner and allow for adequate development time.

An additional barrier to submitting successful projects is interconnection, again given the highly localized nature of DIDF projects. CESA supports Sedway Consulting's recommendation that "details of the interconnection process may deserve further emphasis" from the IOUs, given that fast-track interconnection options may not be available at certain locations.⁹ Generally, interconnection delays at all levels have been affecting projects interconnecting to the transmission system, as well as at the distribution system via the Wholesale Distribution Access Tariff ("WDAT"). Providing additional information on interconnection restrictions is helpful, and additional time can allow developers to gain a better sense of and resolve potential interconnection barriers.

IV. CONNECTING EV CHARGERS OR OTHER LOADS SHOULD NOT BE PENALIZED IN FORECAST CERTAINTY SCORES.

Currently, all of the IOUs rank their candidate DIDF projects using three scoring metrics: Cost Effectiveness, Forecast Certainty, and Market Assessment. These metrics are calculated in each IOU's GNA and DDOR filings; however, each IOU uses slightly different methodologies to calculate the metrics. For example, PG&E gives lower Forecast Certainty scores to projects with a higher likelihood of connecting EV charging stations, cannabis cultivation, and data centers,¹⁰ but it is unclear why the likelihood of addition of these loads makes any given forecast uncertain.

⁹ *Ibid* at 7.

¹⁰ PG&E's 2021 DDOR submitted to R.14-08-013 on August 16, 2021, at 20.

Overall, TE is expected to add significant load to California’s grid, and the installation of large or public EV chargers can lead to significant load increases on individual circuits. To this end, CESA agrees that the IOUs should be considering how TE will drive load growth in localized areas and how known and predicted installation of chargers will trigger distribution upgrades. However, as the name of the metric implies, the Forecast Certainty metric is designed to provide, “a relative indication of the likelihood of the grid needs driving a candidate deferral project materializing.”¹¹ To determine the Forecast Certainty score, PG&E uses a questionnaire filled out by distribution engineers that asks about the likelihood of different loads connecting to that circuit, sensitivity of those loads to weather and water usage, COVID-19 impacts, and operational benefits provided by the project.¹² Those projects with higher likelihood of connecting EV charging stations, cannabis cultivation, and data centers are given lower forecast certainty scores, even though it is unclear why any circuit with these connecting loads has a lower forecast certainty score, given that the likelihood of any individual project is not being evaluated.¹³

Instead of penalizing projects with higher likelihoods of EV chargers or other loads generally, CESA recommends that PG&E use an approach similar to SCE, where likelihoods of individual load projects are evaluated. In their calculation of Forecast Certainty, SCE evaluates whether a particular project has submitted an Application for Service, construction status, certainty of load schedule, and other indications of load certainty.¹⁴ Using this methodology, EV chargers or other loads that are certain to be built earn higher Forecast Certainty scores and projects that are less certain earn lower scores, which is appropriate for this metric.

¹¹ SCE’s 2021 GNA/DDOR submitted to R.14-08-013 on August 16, 2021, at A-60.

¹² PG&E’s 2021 DDOR at 20.

¹³ *See also* 2022 Independent Professional Engineer Post DPAG Report submitted to Energy Division, PG&E, SCE, and SDG&E on March 17, 2022.

¹⁴ SCE’s 2021 GNA/DDOR at A-60.

CESA understands that EV chargers, especially direct current fast chargers (“DCFC”), cannabis cultivation facilities, and data centers can add significant loads that may not be able to be deferred by DERs in all cases. However, DERs can defer upgrades caused by these loads in many cases, especially for EV loads that are not 24x7, but have load shapes that may or may not coincide with the circuit peak. CESA urges consideration of EV load shapes within the GNA to determine appropriate deferral needs, as done by SCE¹⁵ and SDG&E.¹⁶ If these load shapes are not conducive to deferral by DERs because of operational requirements, that will be reflected in the Market Assessment Score. The Forecast Certainty score should not be used to de-prioritize projects that the IOUs believe DERs are not able to defer.

V. IMPROVEMENTS IN UNDERSTANDING OF ELECTRIFICATION IMPACTS OR DISTRIBUTION FORECASTING IDENTIFIED IN PHASE 1 OF R.21-06-017 SHOULD BE INCORPORATED INTO DIDF.

In R.21-06-017, the Commission is considering a wide variety of issues affecting DERs across all three tracks of the proceeding. However, Track 1 is focusing on Distribution Planning Process and Data Improvements, including considering the future of DIDF. CESA is looking forward to engaging more on larger DIDF reform in Phase 2 of this track, where the Commission is asking how DIDF can “be modified to better capture DER value and optimize DER siting.”¹⁷ In particular, CESA believes that DIDF can be better aligned with DPPs to allow for a more cost-effective distribution grid. However, in advance Phase 2 starting in 2024, CESA believes that findings from Phase 1 of this proceeding should be incorporated into the DIDF as soon as possible.

¹⁵ See SCE’s 2021 GNA/DDOR at A-20 – A-26.

¹⁶ See SDG&E’s 2021 GNA/DDOR resubmitted to R.14-08-013 on September 24, 2021, at 12.

¹⁷ Scoping Ruling at 5.

In particular, there are two workshops scheduled for Q2, a Distribution Forecasting Working Group workshop and an Electrification Impacts Study workshop, with an accompanying study by Kevala. CESA looks forward to participating in these workshops and recommends that the IOUs incorporate any applicable takeaways to their upcoming GNA and DDOR deliverables so that additional DIDF opportunities can be identified.

VI. CONCLUSION.

CESA appreciates the opportunity to submit these comments. We look forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Jin Noh', written in a cursive style.

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Date: April 4, 2022