

October 26, 2020

CPUC Energy Division Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102
EDTariffUnit@cpuc.ca.gov

Re: Comments of the California Energy Storage Alliance to Draft Resolution E-5106: Rejection of the Large Thermal Energy Storage (L-TES) Incentive Calculation Methodology Proposal for the Self-Generation Incentive Program and Proposed Updates to the Self-Generation Incentive Program (SGIP) Handbook

Dear Sir or Madam:

Pursuant to the provisions of General Order 96-B, the California Energy Storage Alliance (“CESA”) hereby submits these comments to the above-referenced Draft Resolution E-5106 issued on October 2, 2020, rejecting the jointly filed Advice Letter 5640-G of Southern California Gas Company (“SoCalGas”), Advice Letter 4255-G/5839-E of Pacific Gas and Electric Company (“PG&E”), Advice Letter 4223-E of Southern California Edison Company (“SCE”), and Advice Letter 112-E of Center for Sustainable Energy (“CSE”).

I. INTRODUCTION & SUMMARY.

CESA strongly supports the Commission’s affirmation that large thermal energy storage (“LTES”) systems should have a site-specific, data-driven, and performance-based incentive calculation methodology in place to support their participation in the Self-Generation Incentive Program (“SGIP”),¹ in line with Decision (“D.”) 19-08-001 and as comparable to the performance-based measures established for battery energy storage systems. We thus commend the Commission for the issuance of Draft Resolution E-5106 that will spur increased LTES participation in SGIP, upon the SGIP Program Administrators (“PAs”) adopting the same or similar methodology as developed by University of California (“UC”) Davis’ Western Cooling Efficiency Center (“WCEC”). In addition, CESA agrees with many of the key determinations made in the Draft Resolution, including rejecting the PAs’ argument that SGIP incentives should not be supporting thermal storage for facilities with older, less efficient chillers² – a policy determination that cannot

¹ Draft Resolution E-5106 at 17 and Findings 19-20.

² *Ibid* at 16.

October 26, 2020
Page 2 of 5

be made within the Advice Letter process. Finally, we agree with the Commission's conclusion that the application of different rules for large and small thermal storage systems is appropriate.³

While supportive of the Draft Resolution, CESA offers the following comments for the Commission's consideration:

- Given the technical nature and history of delay, the PAs should work closely with industry from the start.
- The initial 30/70 incentive structure is reasonable for the first five LTES applications but a return to a 50/50 incentive structure is necessary to have a level playing field.
- The requirement for the performance-based incentive ("PBI") portion of the SGIP incentive for the LTES system to be paid out over the full five-year PBI period should be clarified or removed.
- The Commission should develop capacity and performance evaluation methodologies for dynamic thermal storage assets in an existing or new rulemaking.

II. GIVEN THE TECHNICAL NATURE AND HISTORY OF DELAY, THE PROGRAM ADMINISTRATORS SHOULD WORK CLOSELY WITH INDUSTRY FROM THE START.

The Draft Resolution directs the PAs to work with their technical staff and only work with industry "if necessary." Due to the technical nature of LTES incentive calculation methodologies and standards and the proprietary nature of certain models, CESA recommends that the PAs work directly and closely with industry from the start to avoid any additional delay in developing and proposing a compliant methodology pursuant to the Draft Resolution. As noted in our Protest, for example, the PAs appear to have a misunderstanding regarding the administrative burden of Trane's proposed methodology, which could be streamlined through the use of .pdf outputs of ASHRAE-compliant models. Such misconceptions could be addressed through closer collaboration instead of waiting for the PAs to develop methodologies and approaches independent of industry input. Given the long history of delay in getting to this point, CESA believes that closer collaboration is necessary in getting timely resolution on the matter in order to support LTES participation in SGIP, which has been minimal to date.

³ *Ibid* at 19.

III. THE INITIAL 30/70 INCENTIVE STRUCTURE IS REASONABLE FOR THE FIRST FIVE LTES APPLICATIONS BUT A RETURN TO A 50/50 INCENTIVE STRUCTURE IS NECESSARY TO HAVE A LEVEL PLAYING FIELD.

The Draft Resolution agrees with the PAs' concern that a dynamic methodology using proprietary models is "untested" for the purposes of SGIP incentive calculation and necessitates review and verification of performance estimates. To this end, the Draft Resolution proposed a 30/70 incentive structure for the first five LTES incentive reservations, with the PAs being allowed to make a recommendation within 60 days as to whether the 50/50 structure should be restored.⁴ CESA understands the Commission's concern and accepts its cautious approach, but unless major errors or issues are identified and substantiated, the Commission should return to a 50/50 incentive structure to ensure a level playing field with battery storage technologies, which served as one of the underlying bases for adopting a dynamic methodology in the first place.

To this end, clarifications should be provided in "restoring" the 50/50 incentive structure. It is unclear whether the first five LTES projects would be "restored" to receive its remaining 20% of upfront SGIP incentives upon the PAs affirming their recommendation to restore the 50/50 incentive structure, or if the 50/50 incentive structure would apply on a going-forward basis for future LTES applications (*i.e.*, the sixth, seventh, etc. LTES incentive reservation). Furthermore, it may be helpful to provide some guidance or principles that would inform whether the incentive calculation, upon testing, is acceptable, such as methodology inaccuracy or administrative burden to a substantial degree. Rather than leaving this open-ended, guidance or principles would ensure that minor issues are not cited to prevent restoring the 50/50 incentive structure or that excessive PA discretion is exercised.

IV. THE REQUIREMENT FOR THE PBI PORTION OF THE SGIP INCENTIVE FOR THE LTES SYSTEM TO BE PAID OUT OVER THE FULL FIVE-YEAR PBI PERIOD SHOULD BE CLARIFIED AND REMOVED.

In setting the initial 30/70 incentive structure for the first five LTES reservations submitted, the Draft Resolution explained that "70 percent will be paid out, based on actual performance, over five years."⁵ Whether intentional or in error, CESA recommends that any requirement that the performance-based incentive ("PBI") portion of the SGIP incentive be paid out over the full five-year PBI period be removed. Currently, battery energy storage systems under SGIP is able to accelerate the recapture period for PBI-based payments from the full five years to a smaller time period. Limiting the ability to recoup PBI payments on an accelerated timeline would be discriminatory to LTES, contrary to one of the intents of the Draft Resolution. Furthermore, increased annual cycling should be encouraged, especially when it is aligned with the greenhouse

⁴ *Ibid* at 17-19 and Order 3.

⁵ *Ibid* at 18.

gas (“GHG”) emissions signal and retail rates and/or for the provision of grid services. LTES is particularly well-positioned for frequent cycling without degradation, whereby a requirement to artificially protract PBI payments over the full five-year PBI period would reduce their value to the grid/customer and hinder the participation in SGIP – an issue that this Draft Resolution is intended to overcome. Finally, even if SGIP projects are able to claim their entire PBI payments in much less than five years, they are required to submit quarterly PBI data to ensure that they continue to reduce GHG emissions by five kg/kWh on a fleet basis throughout its ten-year permanency period.⁶

V. THE COMMISSION SHOULD DEVELOP CAPACITY AND PERFORMANCE EVALUATION METHODOLOGIES FOR DYNAMIC THERMAL STORAGE ASSETS IN AN EXISTING OR NEW RULEMAKING.

The Draft Resolution declined to adopt Trane’s proposed methodology “because it was never formally submitted to the Commission for review,”⁷ leading to a process that has put these key policy determinations in the hands of PAs who are focused on implementation details and execution. In some ways, CESA agrees that the assessment of the methodology by the Commission should be done through a formal policy-focused proceeding that allows for the Commission to evaluate the merits of a methodology, such as the one proposed by Trane, and make a determination to adopt it in line with the broader context of the Commission’s various decarbonization, reliability, and equity goals. Even if Trane’s proposed methodology was incorporated in the PAs’ Advice Letter and adopted by the Commission for the purposes of SGIP incentive calculation, the methodology may not be immediately transferrable or usable within other planning and program contexts, such as for the purposes of Resource Adequacy (“RA”) capacity. LTES has the potential to provide supply-side and emergency RA capacity, distribution deferral services, and a wide range of other grid services, which would be enabled through a more broadly applicable and vetted valuation methodology. The LTES potential in the state is significant.

As a result, even as CESA firmly believes that the PAs should adopt Trane’s proposed methodology for the immediate purposes of SGIP incentive calculation, unless the PAs can identify a better or equivalent alternative, there are significant merits to considering dynamic asset valuation methodologies more deeply in a rulemaking. This would allow for the Commission to build a record on the methodology and solicit input from a broader range of stakeholders. Possible policy pathways include establishing a track or working group within an existing proceeding (*e.g.*, R.19-11-009) or launching a new rulemaking focused on dynamic thermal storage valuation issues (*e.g.*, standalone rulemaking to address this, or within a track of a potential new Energy Storage rulemaking). Regardless of the specific pathway, focused policy development is needed on this matter given that the scope of any existing rulemaking at this time appears well-suited or significantly relevant to this issue.

⁶ D.19-08-001 at Finding of Fact 27.

⁷ Draft Resolution E-5106 at 17 and Finding 21.

October 26, 2020
Page 5 of 5

VI. CONCLUSION.

CESA appreciates the opportunity to submit these comments to Draft Resolution E-5106 and looks forward to collaborating with the Commission and the PAs in implementing the Draft Resolution.

Respectfully submitted,



Alex J. Morris
Executive Director
California Energy Storage Alliance

cc: Asal Esfahani, Energy Division (asal.esfahani@cpuc.ca.gov)
Tory Francisco, Energy Division (tory.francisco@cpuc.ca.gov)
Service lists R.12-11-005 and R.20-05-012