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 PROPOSED DECISION ADOPTING RATES, TARIFFS, AND RULES FACILITATING THE COMMERCIALIZATION OF MICROGRIDS PURSUANT TO SENATE BILL 1339 AND RESILIENCY STRATEGIES

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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 these comments on the *Proposed Decision Adopting Rates, Tariffs, and Rules Facilitating the Commercialization of Microgrids Pursuant to Senate Bill 1339 and Resiliency Strategies* ("PD"), issued by Administrative Law Judge ("ALJ") Colin Rizzo on December 7, 2020. Due to the holidays, CESA is filing and serving these comments earlier than the December 28, 2020 deadline.

I. INTRODUCTION.

With the chance to look back and assess the experience of and outcomes from the 2020 wildfire season, it is clear that the issue of wildfires and public safety power shutoffs ("PSPS") are still persistent and require timely action for the Commission to allow mitigation measures that can not only ensure the "lights stay on" but also continue to advance the state's decarbonization goals. Clean microgrids represent one solution to meet these dual objectives. However, without timely action and policy determinations that support the commercialization of clean microgrids more broadly, the state is left in a situation where the Commission and many stakeholders must "catch up" to address the next wildfire season's risks. Worse, doubling down on solutions that exacerbate these climate-change-driven events represents poor policy when the state should be leading this global challenge, as it has done many times before.

CESA is thus disappointed with two key elements of this PD, which establishes a default reliance on diesel generators to address resiliency needs for the 2021 wildfire season and fails to

markedly advance the commercialization goals of Senate Bill ("SB") 1339 by establishing a new microgrid tariff that does not substantially change or consider certain cost exemptions. CESA understands that there are important, sometimes competing, objectives that must be balanced, such as the assurance of 2021 resiliency and reliability and the requirement to avoid cost shifts; on the other hand, the PD does not provide a satisfactory consideration or more detailed discussion on the complexities of these issues and barriers. Importantly, the five primary proposals appear to be approved, modified, or rejected in isolation, without consideration of how they may interact and support the objectives and success of each other individually. For example, for the Microgrid Incentive Program (Proposal 4) to have a greater probability of success, different determinations on the revisions to Rule 18/19 (Proposal 2) and the microgrid rate schedule (Proposal 3) may be needed. Despite these two disappointing elements, CESA is generally supportive of other aspects of the PD, including the approval of the Microgrid Incentive Program (Proposal 4) and the pathways for electrical isolation methods (Proposal 5) that incrementally support the development of microgrid projects and customer-sited resiliency strategies.

In sum, our comments on the PD can be summarized as follows:

- The interim approach for the 2021 wildfire season represents a failure to more proactively consider clean generation alternatives, but as it is pursued, modifications are needed to limit the default reliance on diesel generation beyond what is necessary.

- The adoption of Proposal 4 on microgrid rate schedules should be held and deferred to the Resiliency and Microgrid Working Group ("RMWG").

- The Microgrid Incentive Program in Proposal 4 should be approved but requires several clarifications or modifications on program budget, cost-effectiveness and scoring criteria, and interactions with other proposals.

- The added flexibility to Proposal 3 to revise the Rule 18/19 tariffs is welcome but it should still be modified to expand the eligibility criteria.

- The electrical isolation methods in Proposal 5 should be approved.

- The revisions to Rule 2 in Proposal 1 regarding added or special facilities should be approved.

II. THE INTERIM APPROACH FOR THE 2021 WILDFIRE SEASON REPRESENTS A FAILURE TO MORE PROACTIVELY CONSIDER CLEAN GENERATION ALTERNATIVES, BUT AS IT IS PURSUED, MODIFICATIONS ARE NEEDED TO LIMIT THE DEFAULT RELIANCE ON DIESEL GENERATION BEYOND WHAT IS NECESSARY.

The PD proposes to approve the Staff Proposal's interim approach with modifications[1] to "keep the lights on" as a 2021 priority and thus to allow the investor-owned utilities ("IOUs") to reserve temporary diesel generation for safe-to-energize substations for 2021, with cost recovery via an application or in their 2023 General Rate Case ("GRC") filings. Relative to the Staff Proposal, the PD provided the IOUs some optionality to reserve diesel generation capacity and added that reservations for temporary generation could be extended up to three years, but PM and NOx emissions must be reduced by at least 90% compared to a Tier 2 diesel engine (*e.g.*, use of alternative fuels). For purposes of transparency, the IOU shall file a compliance filing in this proceeding by March of the following year, containing a report detailing the use of temporary generation under this framework.[2]

CESA finds the proposed interim approach to be the most disappointing aspect of the PD, where virtually no discussion is provided in the body of the PD on the merits of other parties' comments on clean alternatives, including the viability and possibility of conducting a Clean Generation Request for Offers ("RFO") to solicit diesel alternative options, as recommended by CESA and many others. The Track 1 Decision also made clear that the use of diesel generators would be limited to one year, or the 2020 wildfire season, and emphasized how their use "is not a long-term resiliency strategy."[3] While the Commission does not contravene its previous determination since it does initiate activity to shape a transition to alternatives, as outlined in D.20-06-017, CESA does not believe the fullest effort was made to limit the default reliance on diesel generation for the 2021 wildfire season, or to substantiate why any interim approach must rely solely on mitigating transmission-level outages rather than a broader consideration of load-reducing technologies or clean alternatives connected further downstream of the transmission

[1] CESA found it challenging to assess the PD due to the lack of discussion of the changes in the body of the decision or providing a redlined version of Appendix A. In the future, CESA recommends that the Commission provide a redlined copy of proposed processes or frameworks.

[2] PD at 87-89 and Appendix A.

[3] D.20-06-017 at 81-82.

system. Especially given the lack of discussion of the multiple comments submitted and workshop discussion held on this matter, the determination is particularly troubling.

Notwithstanding these concerns with process and solutions, CESA does not agree with some of the modifications made to the interim approach. In particular, CESA does not support the modification that the IOUs may either justify the scope and scale of the need (per the Staff Proposal) or reserve temporary generation capacity equivalent to 120% or less of the coincident peak deployment of temporary generation in the immediately previous year. In our view, this constitutes a blanket approval for the IOUs to use diesel generation without needing to substantiate the scope and scale of the need and potentially prolongs reliance on temporary diesel generation beyond what is necessary without transparency or accountability. Given the IOUs' stated efforts to reduce the scope and scale of Public Safety Power Shut-off ("PSPS") events as expressed in R.18-12-005, the level of diesel generation needed year-to-year should presumably be going down. If not, the IOUs should be required to substantiate the reason. To this end, CESA recommends that the PD be revised to maintain the Staff Proposal approach to require the IOUs to justify the scope and scale of the need for diesel generation on a year-by-year basis.

At the same time, though more could have been done for the 2021 wildfire season, CESA generally supports the planned transition to clean generation and supports some of the modifications made in the PD to this end. Compared to the Staff Proposal, the PD removes the three-substation limit and opened the opportunity to novel or commercially tested technologies and/or permanent projects – changes that will advance clean alternatives to as many areas as possible and feasible and enable new innovative yet reliable approaches to be pursued. CESA also believes that it is appropriate to compare the cost of clean generation projects to the expected cost of utilizing backup diesel generation on an apples-to-apples basis – *i.e.*, over a 20-year contract term equivalent. In doing so, the comparison will not inherently favor short-term rental solutions to long-term resource investments. This comparison should also reflect how clean generation solutions can provide greater grid value through the provision of generation capacity, whether for distribution deferral, wholesale energy, and/or Resource Adequacy ("RA") capacity.

Despite these incremental improvements to the transition to clean generation, there are certain areas for further clarification or discussion on the implementation details. The criteria for stationary installations were modified to focus less on long-term power loss risk to one that

compares clean microgrid projects to ongoing, planned, or proposed grid hardening investments that would significantly reduce the risk of de-energization at this substation over the next 10 years, and/or the cost of proposed grid-hardening investments exceed $10 million – a change that is welcome to incorporate clean distributed energy resources ("DERs") options more comprehensively in distribution planning for wildfire or PSPS mitigation but could also be limiting unless a wires investment is actually proposed for a particular at-risk area or location. A focus more broadly on long-term power loss risk may best encapsulate areas where wires investments are actively proposed, as well as areas that do not have such solutions proposed, and Appendix A of the PD should be modified as such.

Furthermore, the criteria for permanent solutions to have greenhouse gas ("GHG") emissions roughly equivalent to, or less than, emissions from the current grid mix are well-intentioned in theory but may be challenging to demonstrate without clear upfront methods or approaches – a complex exercise that depends on how DERs such as energy storage are operated, how the baseline is established, and/or how emissions and the grid mix are forecasted. Instead, this criterion may need to be modified to more simply evaluate solutions that reduce source emissions impacts relative to diesel generation and adhere to Integrated Resource Planning ("IRP") objectives if such permanent clean generation resources are intended to be used beyond just for resiliency but to also supply blue-sky capacity.

Finally, CESA reiterates our view that the transition to clean generation resources should broaden its focus beyond transmission-level outages and consider how load-reducing resources can modify the underlying resiliency need at particular locations. In this broadened consideration of the need, the technical requirements for clean generation alternatives should also be revisited (*e.g.*, capable of islanding for 48 hours).

III. THE ADOPTION OF PROPOSAL 4 ON MICROGRID RATE SCHEDULES SHOULD BE HELD AND DEFERRED TO THE RESILIENCY AND MICROGRID WORKING GROUP.

The PD proposes to approve Option 4 and 5 of Proposal 4 with modifications that would establish new microgrid rate schedule and rules while removing the 10-MW project cap size, restricting the tariff to Net Energy Metering ("NEM") eligible generation, and rejecting the two-year phase-in tariff for the Option 5 supplemental tariff that will eventually be developed by the

RMWG. In making these determinations, the Commission sought to avoid impeding the commercialization of microgrids in the amount and type of customers and ensuring that non-renewable generation used for backup power does not claim NEM export credits.[4] Importantly, the PD emphasized the statutory requirement prohibiting cost shifting for any microgrid tariff adopted and how parties have not substantiated how benefits from microgrids could offset any cost shifts.[5]

CESA is immensely disappointed with this determination and finds that the PD does not include substantive discussion of how and why any of the proposed charge exemptions constitute cost shifting across different microgrid configurations and use cases. In essence, CESA does not believe that Proposal 4 as modified and adopted accomplishes anything other than to affirm that only NEM-eligible generation should be able to receive NEM export credits – something that was already implied by the existing NEM rules and affirmed for microgrid use cases that might involve NEM generation. As a result, despite parties highlighting how standby charges and departing load charges can impact the economics of microgrid projects and serve as a barrier, and notwithstanding the comments from parties on when and where exemptions from these charges may be appropriate based on what costs these charges are intended to recover, the PD rejects all forms of exemptions in all use cases, solely relying on the cost-shifting prohibition in SB 1339. CESA does not believe that this type of determination fulfills the intent and various requirements of SB 1339, with the Commission placing an undue emphasis on one requirement over the other competing objectives outlined in the bill.

Instead of adopting Option 4 of Proposal 3 and putting to rest the issue of the appropriate use cases where exemptions may apply, CESA recommends that the Commission not adopt Proposal 4 in this decision and instead defer this issue for further Track 3 discussion in the development of a microgrid tariff in the RMWG. According to the PD, the RMWG is directed to consider the following scope: (1) whether to provide compensation to energy exports generated by nonrenewable resources in a microgrid taking service under the new microgrid tariff; (2) the prudent level of compensation to nonrenewable exports, if any; and (3) how any inter-related

[4] *Ibid* at 45-46.

[5] *Ibid* at 42-44.

impacts to wholesale distribution access tariff should be resolved.[6] CESA thus interprets this scope as not considering the issue of standby charge and departing load charge exemptions any further with the adoption of Proposal 4 in Track 2. Rather, CESA believes that further record development is needed to assess the nature of these charges and determine when and where exemptions could apply. The consideration of these exemptions should be comprehensively considered in the RMWG's Track 3 tariff discussions around export compensation as well as the value of resiliency. Both costs and benefits should be more broadly and diligently assessed.

CESA's fear is that, otherwise, there will be a lag between addressing this barrier to support the commercialization of microgrids in the near term and the time needed to bear out the impacts of Option 4 of Proposal 3, where CESA and many others expect to have negligible positive benefits in supporting or accelerating the commercialization of safe and reliable microgrids. In the alternate, CESA urges the Commission to reevaluate this determination within the next two years, or earlier if there is evidence showing that this determination is presenting real barriers to project interest or interconnections.

Finally, CESA clarifies our support for Option 4 as discussed in the PD.[7] While supporting Option 4, we also recommended that certain microgrid configurations should be fully exempt of departing load charges and standby reservation charges.[8] Our position on this issue was not fully captured in any of the options laid forth in the Staff Proposal, such that our partial support for one option with modifications may have been misinterpreted.

IV. THE MICROGRID INCENTIVE PROGRAM IN PROPOSAL 4 SHOULD BE APPROVED BUT REQUIRES SEVERAL CLARIFICATIONS OR MODIFICATIONS ON PROGRAM BUDGET, COST-EFFECTIVENESS AND SCORING CRITERIA, AND INTERACTIONS WITH OTHER PROPOSALS.

CESA is strongly supportive of the PD's proposed approval of the Microgrid Incentive Program (Proposal 4), including the matching fund for cost offsets, and appreciates the modifications in line with CESA's and many other parties' recommendations, such as the

[6] *Ibid* at 49.

[7] *Ibid* at 39.

[8] *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* filed on August 14, 2020 in R.19-09-009 at 10-12. https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M345/K150/345150290.PDF

proposals to: allocate the costs of the program to all distribution customers to avoid burdening the most vulnerable customers; utilize a scoring approach to advance both resiliency and equity objectives; not establishing limits on the number of projects as the scoring criteria will determine program eligibility; and extending the project commercial operation date by 12 months to account for the complexity and time to develop microgrid projects.[9] Even as single-customer projects are excluded, CESA believes that the focus on multi-property projects are appropriate for the purposes of this pilot since it will yield key insights and experiences that may inform future program design or policymaking.

Though supportive, CESA requests that the Commission provide key clarifications regarding Proposal 4. First, it is unclear why the PD determined that the program budget should be set at $200 million, down from the $225 million recommended in the Staff Proposal based on the $15-million project cap and 15-project maximum limit in the program per IOU. The PD discusses how the lifting of the cap to the number of projects per IOU service territory as justifying a lower program budget,[10] but CESA does not follow this logic. Assuming that all projects in the program will request the full $15-million maximum per project, which was the underlying logic for the total $225-million budget (*i.e.*, 15x15 = 225), the lower total program budget would be funding a smaller number of projects, undercutting the intent behind to remove the 15-project subscription limit. There may be microgrid projects that do not need the full $15-million maximum per project, but the lower overall program budget will ultimately support fewer microgrid projects. Furthermore, the scoring criteria may help advance higher-quality projects with the limited funds available in the program, potentially addressing any concerns regarding a higher program budget. Unless otherwise substantiated, CESA recommends maintaining the original $225-million program budget, which will advance resiliency for more customers.

Second, CESA has some concerns with the cost-effectiveness criteria being applied in the scoring process as opposed to it being done after the fact. Especially with this program being intended to advance learning objectives, a strict focus on or application of cost-effectiveness in the scoring process should be avoided, especially as certain criteria such as the value of resiliency or various cost exemptions are not adequately resolved. Due to these questions, the cost-effectiveness

[9] PD at 59-62.

[10] *Ibid* at 61.

criteria should potentially focus on relative scores among different program applications rather than strict project-by-project net scores. Moreover, even though the PD includes but does not limit the cost-effectiveness assessment to "serving as a substitute for replacing traditional infrastructure" (*i.e.*, as a non-wires alternative),[11] CESA cautions against a narrow deferral- or avoidance-based framework for cost-effectiveness assessment for microgrid projects because it would limit the benefits proposition of microgrids and would require a wires project to be proposed and scoped to even make such an assessment. Generally, CESA supports a working group process facilitated by the program administrator to shape and develop the appropriate cost-effectiveness criteria and scoring process, along with other implementation matters (*e.g.*, supporting documentation, recoverable costs, incentive disbursement mechanism).

Finally, CESA notes the importance of Proposals 1-3 in supporting the viability of the projects funded through the proposed Microgrid Incentive Program. As discussed above, it is important to consider how the Rule 2, 18, and 19 revisions and the microgrid rate schedule interact with the Microgrid Incentive Program projects, where the limited or negligible impact or scope of Proposals 1-3 may limit the success or viability of Proposal 4.

V. THE ADDED FLEXIBILITY TO PROPOSAL 3 TO REVISE THE RULE 18/19 TARIFFS IS WELCOME BUT IT SHOULD STILL BE MODIFIED TO EXPAND THE ELIGIBILITY CRITERIA.

The PD approved Option 2 of the Staff Proposal with modification to: (1) allow microgrids owned by municipal corporations or a third party to supply electricity to a critical facility operated and controlled by a municipal corporation on an adjacent premise; and (2) be limited to a single transmission-distribution interface. Meanwhile, the PD maintained the list of eligible customers for this exemption to the critical facilities listed in D.19-05-042 and declined to remove the 10-project limit per IOU service territory due to the need to evaluate and collect data on the effectiveness of the tariff revisions. However, once the limit has been reached, the IOU can submit an advice letter requesting permission to interconnect the remaining applications or request permission to life the cap.[12] CESA is directionally supportive of the incremental changes to make

[11] *Ibid* at 63.

[12] PD 28-29.

Proposal 2 ownership agnostic and to allow for more flexibility to increase the cap, if the IOU demonstrates the need for a higher cap.

However, CESA continues to hold the view that Proposal 2 is too narrow in scope by limiting the range of customers who can take advantage of the Rule 18/19 revisions. The current scope of eligible customers is potentially extremely limited, especially with municipal corporations being required to own adjacent parcels. Granted, the PD does not close the door for the eligibility of non-critical facilities at a future date after evaluating the effectiveness of the tariff revisions, in an effort to prioritize public safety benefits, establish guardrails against unintended consequences, and ensure regulatory consistency with R.18-12-005.[13] At the same time, CESA believes that the Commission could do more to support the commercialization of microgrids while still adhering to the rationale expressed in the PD, whereby eligibility to leverage the Rule 18/19 revisions could be extended to access and functional needs ("AFN") populations as outlined in Appendix A of D.19-05-042 and/or to those who meet equity-related criteria as done for the Self-Generation Incentive Program ("SGIP"). Expansion of the definition to include these populations and facilities that serve them would still be consistent with Commission direction,[14] prioritize public safety benefits for those who are the most vulnerable,[15] and mitigate concerns about the wide-ranging impact of public safety power shut-off ("PSPS") events.[16] Consistent with the PD, the expansion to these customer groups would also be in the public interest and align with the Commission's priorities to support low-income and disadvantaged communities. Finally, CESA also does not understand why it is necessary for facilities to be owned by municipal corporations to be eligible for these Rule 18/19 revisions. This may also serve to limit the base of beneficiaries.

At the very least, the Commission should commit to quickly visit the cap or list of eligible customers as soon as the IOU-specific cap is hit and assess whether any reliability or safety risks

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[13] *Ibid* at 31-32.

[14] *See* D.20-01-021 at 44-46 where the Commission found merit in expanding the list of additional customers with critical resiliency needs.

[15] *See* D.20-01-021 at 10: "SGIP equity resiliency and equity budget incentives allow low-income and vulnerable customers and disadvantaged communities the opportunity to access benefits that would otherwise be unavailable to them due to the relatively high cost of the installed technology."

[16] *See* D.19-05-042 at 77-78: "The Commission, at this juncture, takes a broad approach to defining AFN populations with the goal of identifying and notifying AFN populations and mitigating against the impacts of de-energization on these populations… The Commission recognizes that the utilities cannot adequately identify all AFN populations at this time."

related to the Rule 18/19 revisions are reasonably addressed such that they can be scaled to more customers and to a broader base of customers. To fulfill the intent of SB 1339, such an evaluation and determination should be pursued in a timely manner.

VI. THE ELECTRICAL ISOLATION METHODS IN PROPOSAL 5 SHOULD BE APPROVED.

The PD proposes to approval Option 2 of Proposal 5 with modifications to develop a clear pathway for various technologies to provide disconnection of a premise's entire electrical service to support electrical isolation during an outage. CESA strongly supports Option 2 that allows for various technological options to achieve the electrical isolation methods that represents a low-cost approach to providing critical resiliency service. Importantly, CESA commends the Commission for the proposed modifications to bypass a pilot process and go ahead to establish a commercial, "mainstream" pathway and add some flexibility by setting an overall $3-million cap across all IOUs, with the optionality for IOUs to file a Tier 2 advice letter requesting and substantiating a budgetary increase.[17] Rather than taking an incremental and pilot approach to begin, CESA agrees with the PD in making this an immediate pathway that should be broadly available using off-the-shelf technologies, so long as technologies are approved and tested and are implemented in coordination with the IOUs. CESA looks forward to working with the IOUs on the implementation details.

VII. THE REVISIONS TO RULE 2 IN PROPOSAL 1 REGARDING ADDED OR SPECIAL FACILITIES SHOULD BE APPROVED.

CESA generally supports the PD's adoption of Option 2 as modified as removing a barrier for microgrid development and as applying a consistent set of rules for the treatment of microgrids under each utility's Rule 2 tariff.[18] However, revising the definition of connected loads, as recommended by CESA and others, was found to be out of scope at this time. With the potential of load management technologies to manage the level of "connected load" and DERs in microgrid configurations that avoid costly upgrades, CESA still finds merit in the RMWG considering this

[17] PD at 70-71.

[18] *Ibid* at 17-18.

issue to address economic and other barriers to the commercialization of microgrids, similar to other proposals contemplated in this PD.

VIII. CONCLUSION.

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

Respectfully submitted,

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