

December 6, 2021

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**Re: Response of the California Energy Storage Alliance to Advice Letter 4643-E  
of Southern California Edison Company**

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Dear Sir or Madam:

Pursuant to the provisions of General Order 96-B, the California Energy Storage Alliance (“CESA”) hereby submits this Response to the above-referenced Advice Letter 4643-E of Southern California Edison Company (“SCE”), *Southern California Edison Company’s Request for Approval to Launch the 2022 Partnership Pilot* (“Advice Letter”), submitted by SCE on November 15, 2021. CESA is timely submitting this response on December 6, 2021.

**I. INTRODUCTION & BACKGROUND.**

With the issuance of D.21-02-006, CESA was excited to see the launch of two pilots to test novel ways to leverage distributed energy resources (“DERs”) for distribution deferral through the Distribution Deferral Investment Framework (“DIDF”). In particular, the Partnership Pilot poses a unique opportunity to leverage behind-the-meter (“BTM”) resources for distribution deferral, which have traditionally been unable to compete in previous DIDF Request for Offers (“RFOs”). Piloting this approach of using BTM DERs for distribution deferral is an important step in developing the suite of grid services that BTM DERs can provide while delivering on some of the intended goals of having the DIDF in the first place, such as in reducing ratepayer costs.

Overall, CESA is pleased to see the Partnership Pilot launch. However, CESA would like to comment on general issues and principles surrounding the Partnership Pilot and offers the following specific points of feedback on SCE’s Advice Letter:

- The tranche budgets should be translated into upfront and consistent deployment, reservation, and performance payments.
- Contracts should be able to include terms that exceed tranche length.

- SCE should rollover any and all excess funds to subsequent tranches without any cost-cap limitations.

## II. DISCUSSION.

The Commission established the DIDF to procure DERs to meet distribution grid needs and defer investment in distribution system upgrades. Using an RFO competitive solicitation process, DER projects are procured to meet the entire forecasted need all at once, and if the DER solutions are not cost-effective compared to the planned investment or do not meet the full grid need, the investor-owned utility (“IOU”) will move forward with the traditional wires solution. In spite of the potential for changes in grid need, the DER or wires solution will generally remain contracted and be in place, unless the existing or proposed solution does not meet the need and poses reliability challenges. While under-procurement of DERs in the face of existing or changed grid needs will, of course, warrant the pursuit of an alternative solution to avoid reliability issues and meet the full revised grid need, the tolerance or allowance for a reasonable level of over-procurement should be similarly applied for traditional wires solutions and DER alternatives, especially when cost-effectiveness controls are in place for the Partnership Pilot.

In particular, CESA and our members never imagined the Partnership Pilot as being designed to procure DER solutions for one-year deferrals, but rather envisioned that the Partnership Pilot as a new sourcing mechanism that would procure DERs in tranches that would create flexibility in eventually and more successfully deferring the full grid need. For example, after procuring for the first tranche needs to minimally defer the need for one year, the utility should then immediately proceed to begin subscriptions for the next tranche to make progress toward the full need; yet under the currently proposed Partnership Pilot involving one-year deferral terms, the utility would wait to reassess the grid need for the next year which could result in many months before the subscription period for the next tranche is opened, creating a “start-stop” structure that is not conducive to customer participation. As a result, in a circumstance where customer and developer interest is robust and exceeds the one-year deferral need, they will be told to wait when they could be making immediate progress toward subscription periods in subsequent tranches and increasing the probability of fully deferring the need. While the intent of one-year deferrals to right-size for grid needs as they change year-by-year is understandable, it could ultimately work against the ability of deferring the full need. With DERs under the Partnership Pilot already cost-effective by its design (*i.e.*, 85% of the cost cap), CESA does not understand the desire to further avoid “over-procurement” risks and minimize costs in the short term at the expense of being less likely to defer the planned investment and reduce costs over the medium term.

Furthermore, the one-year deferral terms also limit the scope of DERs that would be interested or developed in response to the Partnership Pilot. For more capital-intensive technologies, the Partnership Pilot is likely not going to invite participation from new-build BTM storage resources unless long-term deferral contracts are considered. Instead, the Partnership Pilot will likely only interest BTM energy storage additions or enhancements to the existing installed

base (e.g., adding storage to standalone solar) or customers with traditional demand response capabilities. Even if customers could be “renewed” for subsequent tranches, these revenue streams are very uncertain and thus less financeable. CESA understands that the Partnership Pilot is not intended to just support new-build BTM energy storage, but we highlight these features of the current pilot design to show how they may limit the full range of DER participation and thereby work against the ultimate objective of fully deferring the planned investment.

**A. The tranche budgets should be translated into upfront and consistent deployment, reservation, and performance payments.**

Each of the IOUs provided tranche budgets in accordance with the guidance and parameters in D.21-02-006, which established that “[p]roviders file offer reservation for portion or entirety of needed capacity at price set by IOU tariff budget.”<sup>1</sup> Despite some confusing language on vendors submitting the most competitive bids,<sup>2</sup> CESA seeks clarification from the IOUs on whether the Partnership Pilot will involve consistent deployment, reservation, and performance payments, or if participants would still have to bid for capacity reservations within the applicable tranche budget. If the latter, CESA believes that the Partnership Pilot design is unnecessarily complicated, adds transactions costs, and resembles a competitive solicitation process in a way that reduces the purposes of pursuing a “program” approach to procuring DERs. As explained later, the Partnership Pilot is already by its design intended to ensure cost-effectiveness, so by adding a bidding component to the program is unnecessary and aims to maximize cost savings while increasing the prospects successful deferral, such as due to reduced incentives to participate in the pilot in the first place.

Even if the IOUs intend to offer consistent deployment, reservation, and performance payments, the tranche budgets should be translated to upfront and consistent deployment, reservation, and performance payments (e.g., \$/kW-month) to clarify participation benefits and help DER providers determine whether it is feasible and economic to submit offers. Currently, this payment structure would need to be inferred from the tranche budget amounts and the MW and MWh needs.

**B. Contracts should be able to include terms that exceed tranche length.**

Currently, all IOUs are going to deploy Partnership Pilots with one-year tranches and will be signing associated one-year contracts for each tranche. However, CESA is

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<sup>1</sup> D.21-02-006 Staff Proposal at 23. *See also* D.21-02-006 at 25: “Elements not discussed are adopted as proposed in the Staff Proposal including, for example, offer acceptance and contract execution reporting procedures.”

<sup>2</sup> *See* D.21-02-006 at 41: “If cost caps are publicized, all vendors will have access to the same information and vendors will still have to offer the most competitive bid.”

concerned that customers will not be incentivized to join the program if they are unsure whether the program will continue after the tranche in which they enroll.

Ratable procurement in one-year tranches, where additional capacity is procured in each tranche to meet the grid need for that tranche, is a valuable way to provide time to subscribe customers to successfully defer grid investments, given that grid needs emerge and increase over time. Additionally, to successfully meet grid needs with DERs, customers will have to invest in new technologies to provide this capacity for extended periods of time, with many customers likely needing to invest in BTM generation and energy storage. For example, by 2030, the Santa Clara-Colonia project is forecasted to require 14 hours of capacity, including capacity in the evening hours until 9pm; many customers would need to install energy storage to provide capacity in these hours. While prices are decreasing for energy storage devices, customers still need to make significant investments to purchase and install these systems, and additional certainty in payments will help customers to make these investments. During Distribution Planning Advisory Group (“DPAG”) meetings and follow-up with SCE, CESA highlighted that if one-year contracts are adopted, the Partnership Pilot will be less likely to stimulate investment in new DERs and will likely rely on customers with existing DERs to participate.

To include ratable procurement while providing additional revenue certainty to customers, CESA recommends that IOUs sign contracts during each tranche but that contracts last for the remaining the duration of the partnership pilot. In this way, aggregators can use ratable procurement to continue to sign up customers across the pilot as the grid need grows, but earlier customers would be assured that they will participate across the duration of the pilot. D.21-02-006 states that “contract time periods shall be allowed up to 10 years” in the Partnership Pilot, in line with the DIDF RFO process.<sup>3</sup> For this reason, CESA sees no reason why the utilities cannot adopt CESA’s proposal and sign contract terms for the full length of the Partnership Pilot.

SCE has attempted to provide some assurances that customers will be able to continue in the Partnership Pilot if they enroll in a tranche by allowing “aggregators who successfully participated in the previous tranche, the first opportunity to submit bids in the subsequent tranche,” before other aggregators.<sup>4</sup> CESA agrees that this will provide some assurances to aggregators and customers but continues to recommend longer contract terms.

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<sup>3</sup> D.21-02-006 at 25.

<sup>4</sup> SCE Advice Letter at 12.

**C. SCE should rollover any and all excess funds to subsequent tranches without any cost-cap limitations.**

In their Advice Letter, SCE discussed what should be done with excess funds in cases where the number of performance calls are less than expected and funds remain in the Performance Budget at the end of a particular tranche. SCE proposes to roll excess funds over to subsequent tranches of the Partnership Pilot. However, the amount of funds that can be rolled over will be capped so that no tranche budget exceeds 100% of the deferral value or cost cap of the wire solution.<sup>5</sup> If all tranches reach 100% of their cost caps, then excess funds will be returned to ratepayers.<sup>6</sup> CESA urges SCE to remove this cost cap limitations and to roll over *all* leftover funds to subsequent tranches.

SCE states that rolling over funds should be minimized in order to maximize cost-effectiveness of the Partnership Pilot. However, SCE is mistaken to only consider the cost effectiveness of each tranche individually. In the DIDF Framework, the cost-effectiveness of any DER is relative to the cost of the wires solution it is replacing. Therefore, the cost-effectiveness for the Partnership Pilot is determined based on the full deferral for the duration of the pilot, whether five or more years. If the DER solution successfully defers the wires solution cost effectively overall, then ratepayers saved costs by deferring that buildout. In this manner, the Procurement Pilot is already inherently designed to be cost-effective since the budget cap for any project is 85% of the deferral value.

SCE has also recognized the importance of considering the cost-effectiveness of the Partnership Pilot as a whole with their methodology for Proportional Smoothing, which reallocates funding between tranches to ensure more even \$/kW payments across the projects. As SCE explains, growing MW needs paired with stagnant or falling deferral values results in lower \$/kW payments for customers, and to “avoid disincentivizing customers from leaving the pilot as their available earnings decrease each year”, SCE has proposed to implement Proportional Smoothing for two projects.<sup>7</sup> CESA agrees that decreasing payments could add additional risk of customer attrition between tranches and that a Proportional Smoothing method is reasonable to improve customer experience, decrease attrition, and increase the likelihood of a successful deferral. However, this payment structure already pushes the budgets of some tranches above the deferral value cost cap for that particular tranche. For example, for the Santa Clara-Colonia project, Tranches 4, 5, and 6 have tariff budgets that are above the deferral values for those tranches.<sup>8</sup> That being said, Proportional Smoothing is still cost effective because the total tariff budget for the project will remain at 85% of the deferral value across the duration of the project.

Using the same logic of Proportional Smoothing, rolling over all excess funds from to the subsequent tranche is prudent. Rolling over all excess funds to subsequent tranches

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<sup>5</sup> SCE AL at 17.

<sup>6</sup> SCE AL at 17

<sup>7</sup> SCE AL at 14.

<sup>8</sup> SCE AL at 9.

December 6, 2021  
Page 6 of 6

still maintains cost effectiveness for the project as a whole and saving excess funds will provide SCE additional budget to adjust incentive rates in future tranches if previous tranches indicate higher payments may be needed for customers to join. Additionally, some excess funds could allow for tranches to be subscribed up to the 120% procurement margin without decreasing \$/kW payment amounts. If funds remain after the pilot is over, then excess funds could be returned to ratepayers.

### **III. CONCLUSION.**

CESA appreciates the opportunity to submit this Response to the Advice Letter and looks forward to collaborating with the Commission and SCE throughout the Partnership Pilot to better enable participation in the program.

Respectfully submitted,



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Service lists of R.14-08-013, R.14-10-003, and R.21-06-017