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July 14, 2017

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CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102

**Re: Response of the California Energy Storage Alliance to
Advice Letter 3089-E of San Diego Gas and Electric Company**

Dear Sir or Madam:

Pursuant to the provisions of General Order 96-B, the California Energy Storage Alliance (“CESA”)¹ hereby submits this response to the above-referenced *San Diego Gas & Electric Company’s Request to Procure Distributed Energy Resource Solution as Required in Ordering Paragraph 14 of Decision (D.) 16-12-036*, submitted on June 21, 2017 (“Advice Letter”).

I. BACKGROUND AND INTRODUCTION.

San Diego Gas and Electric Company (“SDG&E”) submitted their Advice Letter requesting approval to initiate a solicitation process to procure cost-effective distributed energy

¹ 8minutenergy Renewables, Adara Power, Advanced Microgrid Solutions, AES Energy Storage, AltaGas Services, Amber Kinetics, American Honda Motor Company, Inc., Bright Energy Storage Technologies, BrightSource Energy, Brookfield, Consolidated Edison Development, Inc., Customized Energy Solutions, Demand Energy, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, EDF Renewable Energy, ElectriQ Power, eMotorWerks, Inc., Energport, Energy Storage Systems Inc., GAF, Geli, Green Charge Networks, Greensmith Energy, Gridscape Solutions, Gridtential Energy, Inc., Hitachi Chemical Co., IE Softworks, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Johnson Controls, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, Magnum CAES, Mercedes-Benz Energy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., NICE America Research, NRG Energy, Inc., Ormat Technologies, OutBack Power Technologies, Parker Hannifin Corporation, Qnovo, Recurrent Energy, RES Americas Inc., Sharp Electronics Corporation, SolarCity, Southwest Generation, Sovereign Energy, Stem, STOREME, Inc., Sunrun, Swell Energy, UniEnergy Technologies, Viridity Energy, Wellhead Electric, and Yunicos. The views expressed in this Response are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (<http://storagealliance.org>).

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resources (“DERs”) that would allow SDG&E to defer traditional infrastructure investment in accordance with Ordering Paragraph 14 of D.16-12-036. CESA generally supports the intent of this pilot project to test and validate the recommendations of the Competitive Solicitation Framework Working Group (“CSFWG”) and a 4% pre-tax regulatory incentive mechanism. For this pilot project, SDG&E seeks distribution capacity from DERs to defer traditional infrastructure projects from 2020 to 2026, with DERs that could come online as early as September 2019 but no later than January 2020.² During the July 10, 2017 workshop, SDG&E also discussed how it is looking at contract terms of 5 to 10 years, considering hybrid DER solutions, and seeking a single counterparty for each proposed circuit. In addition, SDG&E noted that it is looking for DERs that are dispatchable by SDG&E and capable of immediate response with day-of notice, noting that the equipment that DERs are intended to defer consists of these traits and is used for reliability purposes. Energy storage resources appear to be well-positioned to provide the requested grid services.

However, CESA has identified several issues in the advice letter that should be addressed by SDG&E to provide greater clarity and market certainty to bidders and ensure robust participation by DER solution providers. In particular, CESA submits this response for the following reasons:

- The double counting methodology used by SDG&E must clearly define what types of DER resources are wholly or partially incremental.
- Exporting energy storage should be allowed to participate.
- DER alternatives should be more strongly considered in contingency planning.
- Project timing criterion for selecting eligible projects does not reflect the procurement and deployment timeline of all DERs, especially existing projects.

II. DISCUSSION.

The double counting methodology used by SDG&E must clearly define what types of DER resources are wholly or partially incremental

The CSFWG and the subsequently formed Distribution Planning Advisory Group (“DPAG”) has yet to come to a consensus on addressing incrementality and double-counting of services provided as it relates to distribution services that could be provided by DERs. D.16-12-036 did not adopt a specific method to address these issues and left it to open to further

² Advice Letter Attachment C, pp. 5-6.

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exploration,³ but required that the parameters be “clear and constant” and to comply with the principles recommended by the CSFWG,⁴ as listed below:⁵

- Ensure that ratepayers are not paying twice for the same service
- Ensure the reliability of a service, i.e., ensure it is not counting on a service to be there when the service might be deployed at another time or place
- Not be unduly burdensome to participants
- Be technology-neutral
- Be fair and consistent
- Recognize that a distributed energy resource is eligible to provide multiple incremental services and be compensated for each service
- Be flexible and transparent to bidders.

As currently proposed, SDG&E does not propose a “clear and constant” or “transparent” incrementality methodology. SDG&E plans to place bids into three different categories of ‘sourcing’ to determine incrementality: (1) not already sourced through another channel; (2) partially sourced through another channel; and (3) fully sourced through another channel. However, no further detail is provided on how this would apply to various different types of projects and resources, other than a footnote in the Request for Offers (“RFO”) instructions that appears to categorically prohibit resources participating in Net Energy Metering (“NEM”) tariff and the Self-Generation Incentive Program (“SGIP”) from this solicitation by finding such bids as “non-conforming”.⁶ CESA strongly disagrees with this categorical prohibition and recommends that this language be stricken from SDG&E’s advice letters and RFO documents for the reasons stated below.

CESA believes that concrete examples are needed as it is unclear to bidders whether their DER resource’s participation in another program or tariff would be determined as non-conforming due to full sourcing from other channels and therefore ineligible to participate, or whether their distribution capacity payments will be discounted due to its partial sourcing from other channels. Clarity is needed from the outset on how this categorization occurs and how the

³ D.16-12-036 Findings of Fact 13 and 17.

⁴ D.16-12-036 Findings of Fact 6 and 11.

⁵ D.16-12-036, pp. 18-19.

⁶ Advice Letter Attachment C, p. 12.

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bids are discounted to avoid broad discretion by SDG&E to determine this during the procurement process.

CESA has two specific recommendations for SDG&E as it clarifies sourcing channels for which a DER would be considered not, partially, or fully sourced. First, SGIP projects generally should be considered ‘un-sourced’ projects for the purposes of this solicitation since SGIP is an incentive program intended to deploy energy storage and other clean distributed generation technologies for the purposes of market transformation of technologies that are capable of providing grid services. In other words, SGIP is an incentive program, not a payment for grid services rendered, even though many projects either are on or are required to be on grid-support tariffs. SGIP is intended to catalyze the energy storage industry to reduce the costs of energy storage and help it reach self-sufficiency by allowing it to pursue other monetizable opportunities (*e.g.*, distribution capacity for traditional infrastructure investment deferral).

While grid support is one of the key program goals of SGIP, these energy storage systems are currently required to meet specified operational requirements and be on time-variant rates. It is important to note the difference between rate schedules that incentivize customers to shape their load ‘voluntarily’ versus explicit grid services solicited and contracted for – *e.g.*, demand response (“DR”) programs. The former is not a sourcing channel while the latter is a sourcing channel. Additionally, CESA recognizes that SGIP-funded projects are also allowed to dually participate in DR programs, which provides revenues for grid services rendered.⁷ For these types of SGIP-funded projects, CESA finds it appropriate to categorize these projects as partially sourced by the DR program in which the project is participating, for the aforementioned reasons. Generally, CESA believes it is important to consider whether the specific services being bid in by SGIP-funded projects are distinct and incremental relative to what the resource would otherwise do in response to rates.

Second, SDG&E should consider energy storage systems paired with NEM generators as partially incremental. Specifically, the energy storage component of the combined system should be considered incremental to the degree that energy storage discharge is ‘firmed’ and the energy storage system reserves capacity to deliver energy during the identified grid reliability need. CESA notes again the difference between rate schedules that incentivize certain desired load shapes through time-variant energy payments versus, in this case, distribution capacity, which is specifically procured as a grid service. It is incumbent on the DER operator to provide the distribution capacity and manage their operations around their rate schedule or tariff. Furthermore, consistent with the CSFWG’s principles, multiple-use applications should be allowed.

⁷ D.16-06-055, p. 38 and Findings of Fact 37.

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Exporting energy storage should be allowed to participate

SDG&E notes that it will only consider behind-the-meter (“BTM”) energy storage bids if it operates as a DR resource.⁸ In other words, SDG&E will only find non-exporting energy storage systems to be conforming. CESA believes that this restriction of operational profiles for energy storage to be unnecessarily restrictive to provide the distribution capacity sought in this pilot solicitation. This restriction therefore does not comply with the CSFWG’s solicitation principles to be technology neutral, not be limited the amount of any one type of technology, and be focused on the identified need.⁹ Since BTM energy storage systems would not need to bid into the wholesale market through the Proxy Demand Response (“PDR”) model, there should not be any limits to only provide load reductions. Any jurisdictional or Wholesale Distribution Access Tariff (“WDAT”) concerns are not applicable for this use case, where the BTM energy storage system would be selling capacity to the distribution utility.

For example, the New York Public Service Commission (“PSC”) recently issued an Order that allowed Consolidated Edison, Inc. (“Con Edison”) to amend its tariffs to allow BTM battery storage systems participating in the Brooklyn/Queens Demand Management (“BQDM”) Program to export to the grid when there is little to no load on the customer site during a DR event. The BQDM Program, which seeks to use non-wires alternatives to meet the growing electricity demand in Brooklyn and Queens, thus allows export to the distribution grid as long as it is deemed to be ‘safe’.¹⁰ Similar to this pilot solicitation, these tariff amendments provide only limited exceptions to General Rule 8.3 for battery storage assets in the BQDM Program for a distribution deferral use case. As such, CESA finds it unnecessary to limit energy storage bids to non-exporting systems. Exporting energy storage systems should be allowed to participate.

DER alternatives should be more strongly considered in contingency planning

SDG&E briefly noted its contingency plans to include DER alternatives. CESA supports this consideration but recommends that the contingency planning be made more explicitly clear. It should detail whether the next-best DER bid in the solicitation should be awarded, or some alternative method. Given the requirement to have only one counterparty per circuit, CESA understands that it may be difficult to have DER-specific contingency plans if there is not a robust response to this pilot solicitation. Regardless, CESA believes that a DER-based contingency plan will be an important element to test in these pilots to generate important learnings, as required in the principles adopted by the CSFWG in D.16-12-036.

⁸ Advice Letter Attachment C, p. 15.

⁹ D.16-12-036, pp. 22-23.

¹⁰ New York Public Service Commission, Case Number 17-E-0104, May 18, 2017.

[http://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/ArticlesByCategory/0B7558D87359A08085258124006EC593/\\$File/pr17038.pdf?OpenElement](http://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/ArticlesByCategory/0B7558D87359A08085258124006EC593/$File/pr17038.pdf?OpenElement)

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Project timing criterion for selecting eligible projects does not reflect the procurement and deployment timeline of all DERs, especially existing projects

SDG&E errs in assuming that DERs can only be cost effectively procured and in a timely manner by 2020.¹¹ CESA believes that the project timing criterion for identifying projects should be relaxed and instead allow for deferrable projects with shorter lead times given proven DER deployment timelines. The emergency procurement in the Aliso Canyon Energy Storage (“ACES”) Request for Offers (“RFO”) demonstrated how energy storage can be procured to meet a critical local reliability need within 6-7 months. Furthermore, CESA notes that there may be existing DERs that either have spare capacity or can create spare capacity through repurposing to provide distribution deferral services while adhering to contractual obligations. R.15-03-011 is in the process of adopting multiple-use application principles and frameworks for energy storage resources to ensure that certain “reliability services” are singularly contracted for and prioritized over “non-reliability services” (e.g., demand charge management).¹² The greater consideration of existing projects will overcome lead-time and cost concerns, increasing the number of deferrable projects to those that can provide voltage support and reliability back-tie services. In addition, as noted above, existing projects or short-lead-time projects can serve as a backstop and provide contingency planning if the initial winning DER project fails to be deployed or perform according to expectations.

SDG&E’s advice letter and attachments do not provide sufficient detail on other deferrable projects that were considered. Given the compressed timeline to seek regulatory approval and begin issuing final solicitation documents and materials, CESA does not wish to delay SDG&E’s pilot launch, but requests that additional projects be considered, if possible, by applying a relaxed timing screen. With the consideration of existing DERs and short-lead-time DER solutions, CESA believes the range of deferrable projects can be expanded. Furthermore, by considering deferrable projects earlier than a 2020 or later need, CESA notes that concerns about uncertain load forecasts are lessened – *i.e.*, load forecasts 1-2 years out is less speculative than load forecasts 3-4 years ahead.¹³

III. CONCLUSION.

CESA respectfully requests that the aforementioned issues be addressed in the pilot solicitation and design. These changes will be important to ensure that energy storage resources will be able to fairly and reasonably compete in this solicitation and ensure that important

¹¹ Advice Letter Attachment A, p. 1.

¹² *Administrative Law Judge’s Ruling Seeking Comments on Joint Staff Proposal*, R.15-03-011, issued on May 18, 2017.

¹³ Advice Letter Attachment A, p. 2.

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lessons are learned to later scale this pilot project to other distribution deferral projects at a wider scale.

Very truly yours,



Donald C. Liddell

DCL/md
Enclosures

cc: Megan Caulson, SDG&E (MCaulson@semprautilities.com)