DOCKETED	
Docket Number:	22-RENEW-01
Project Title:	Reliability Reserve Incentive Programs
TN #:	252061
Document Title:	California Energy Storage Alliance Comments - on Draft DEBA Guidelines
Description:	N/A
Filer:	System
Organization:	California Energy Storage Alliance
Submitter Role:	Public
Submission Date:	8/31/2023 12:55:04 PM
Docketed Date:	8/31/2023

Comment Received From: California Energy Storage Alliance
Submitted On: 8/31/2023
Docket Number: 22-RENEW-01

22-RENEW-01 Comments of CESA on Draft DEBA Guidelines

Additional submitted attachment is included below.

August 31, 2023

California Energy Commission
Docket Unit, MS-4
Docket No. 22-RENEW-01
715 P Street
Sacramento, California 95814

RE: 22-RENEW-01 – Comments of the California Energy Storage Alliance on Distributed Energy Backup Assets Program Draft Guidelines, First Edition

Introduction

The California Energy Storage Alliance (CESA) appreciates the opportunity to comment on the Proposed Draft Guidelines for the Distributed Electricity Backup Assets Program, First Edition, issued on August 11, 2023. CESA acknowledges the efforts of the California Energy Commission (CEC) to mitigate the risks California's electric grid faces today and consider the different tools available for deployment over the coming years.

CESA is a 501(c)(6) organization representing over 100 member companies across the energy storage industry. CESA member companies span the energy storage ecosystem, involving many technology types, sectors, configurations, and services offered. As the definitive voice of energy storage in California, CESA is involved in a variety of venues looking at the deployment of distributed energy storage, both in-front-of-the-meter (IFM) and behind-the-meter (BTM). These venues include near-term emergency reliability proceedings, demand response programs, and long-term planning proceedings and initiatives looking to deploy distributed storage to support a more reliable, cleaner, and more efficient electric grid.

Technology Eligibility

CESA generally supports the list of technologies that are eligible for funding under DEBA, with several modifications that will go a long way in both helping potential project proponents understand the full suite of eligible projects, and ensuring more clean resources will be eligible for the program.

In the bulk grid category, CESA recommends listing examples of the standalone and hybrid project types that are eligible in this category. An example standalone project may be energy storage at a substation. An example of an existing energy project may include a renewable project or a gas fired power plant. These details are missing from the draft guidelines.

In Category 2, the distributed energy resource (DER) category, CESA recommends making any clean energy storage project interconnected to the distribution system qualify for DEBA, including but not limited to batteries. Notably, Category 1 (bulk grid) includes storage as eligible, whereas Category 2 (DER) explicitly only includes battery storage. There are DER systems that shift thermal loads that are otherwise served by electricity. These systems are eligible for the Self Generation Incentive Program and should also be eligible for DEBA. Later in these comments, we raise the topic of adjusting the DEBA payment structure for DERs. Like DEBA, the Self Generation Incentive Program adopted a split of funding between a one-time upfront payment and performance payments over time. CESA recommends amending the list of eligible Category 2 resources to simply list "storage", in alignment with Category 1. Finally, CESA recommends that, for BTM resources, that projects have the option of measuring output and performance based on submetering of the storage device.

Adjustments to DEBA Payment Structure to De-risk DER projects

CESA recommends that the CEC adopt a higher percentage deployment payment for all DER projects. The draft DEBA guidelines propose to bifurcate funding awards into an upfront payment of 25% of project costs and reserve the remaining 75% for performance-based payments over a DEBA project's 5-year commitment, for DERs. By contrast, the draft DEBA guidelines would award 50% of project costs upfront for bulk grid projects. This inconsistency is not discussed nor explained in the guidelines. At a minimum, the two categories must be aligned, and 50% of upfront project costs awarded for both classes of resources.

The draft DEBA guidelines would also make projects wait until COD to receive the payment, which defeats the primary purpose of providing an upfront incentive payment. The primary function of a deployment payment in project development is to support project financing. CESA recommends moving this payment earlier in the development process for all types of projects. A challenging part of financing any storage project in California is the risk capital stage, which occurs between the preliminary development phase (consisting of design,

site control, engineering studies, environmental review, interconnection analyses, etc.) and the final development phase. Risk capital is not eligible for most forms of financing. Once risk capital is obtained and expended, a project's funding and construction are mostly certain. Obtaining risk capital is particularly challenging for projects in DACs, as these communities often have less access to project funding sources such as local government or other institutions that can cover risk capital.

Process for Behind the Meter (BTM) DERs

For behind-the-meter DERs (BTM), CESA continues to support an incentive-based approach for awarding DEBA funding. There is a long history of incentive-based programs in California that includes, but is not limited to, such successful programs as the California Solar Initiative (CSI) and the Self Generation Incentive Program (SGIP). Notably, both SGIP and CSI programs provide(d) split incentive payments into an upfront payment and a performance payment that was allocated overtime based on the resource's performance, and both programs have successfully deployed solar and storage technology, respectively, cost effectively. The compensation structure of these two programs is very similar to that which the CEC proposes for DEBA projects, to be awarded via the GFO process, in its draft guidelines. CESA encourages the CEC to look at these existing models and slightly adapt its own proposed compensation structure to create an incentive program for BTM DERs. The initial structure can easily mirror historical programs and align with the proposed split incentive structure, with requirements for emergency dispatch, consistent with the primary goal for the DEBA program. CESA continues to recommend a clear, transparent incentive with an upfront payment, and ongoing performance payments for BTM DERs. CESA recommends that the upfront payment be set at 50% of system costs, akin to the proposed GFO structure for bulk grid assets, and the remainder distributed in performance-based payments over the program term.

In recognition of the realities of the program development timeline, however, CESA realizes that the opportunity may be effectively missed to create a BTM DER incentive program that can be adopted this year. Thus, CESA recommends several practical steps to both ensure that some amount of BTM DERs is procured in the first GFO and develop a workable transparent incentive-based program for BTM DERs in parallel. As a first measure, the CEC should create a set aside of funding for BTM DERs, in Category 2. CESA recommends that 50%

of the funding be reserved for BTM DERs, with the ability to redirect funding in a later program year if the 50% of funding is not exhausted. For the first GFO, the CEC should create a separate GFO designed for this sector and hold one or more workshops before the BTM GFO is issued to develop a solid understanding of the development timelines for BTM DER aggregations. In parallel, the CEC should review the SGIP and CSI programs at a minimum and adapt an incentive-based program consistent with DEBA goals. To be clear, CESA does not recommend adopting ALL aspects of either program; both programs were undeniably successful and can provide the foundation for an incentive based DEBA program. The CEC may wish to initiate stakeholder workshops to develop the program.

DEBA Project Oversight Must Be Streamlined and Transparent

The proposed guidelines defer the final criteria and procurement details to be defined for each GFO. While it is smart to ensure that adjustments to program criteria be allowed to match grid needs over time, CESA is concerned with the lack of clarity as to program criteria in the guidelines themselves. It is essential that developers of storage projects have as much clarity as to the criteria and project requirements as early as possible to timely design and execute successful projects for DEBA procurement.

In addition, CESA recommends setting clear bounds and expectations for commission agreement manager (CAM) oversight of any DEBA project, and particularly Category 2 projects. As it is described in the guidelines, a CAM for each DEBA project goes far beyond the oversight for any DER or bulk grid emergency response, or non-emergency response, program. The CAM oversight structure underlines the need to confine the CEC's administrative costs for DEBA to not more than 10%. Further, it appears that projects will not be on an even playing field with respect to project oversight, as each CAM may dictate a different schedule or requirements. For BTM projects, where there can be many discrete installations in one project, the seemingly arbitrary project oversight process is inappropriate.

Funding Allocation and Limits

Slide 17 indicates, in a footnote, that the $445M allocated to DEBA also includes the CEC's administrative costs for running the program and CHIRP[1] mitigation costs. The purpose

of the CHIRP program is to provide reporting and mitigation of excess emissions from power plants and backup generators that operate outside of their permitting hours during energy emergencies.[2] n estimation of these costs – either in percentage or dollar terms - is not included in either the slide presentation for the CEC's August 15th workshop, nor the DEBA guidelines. There is no mention of either the CHIRP program or its purpose in Public Resources Code Section 25791, which created the DEBA program. The CEC has not adequately justified the allocation of any DEBA program funding to the CHIRP program, and it should be eliminated entirely from eligibility for DEBA program funds. CESA further recommends placing a 10% limit on administrative costs for the DEBA program.

Value Stacking with Resource Adequacy

The draft DEBA guidelines treat Category 1 and Category 2 resources differently with respect to provision of resource adequacy (RA) during program months. Explanation as to the differing treatment is absent from the guidelines. CESA is aware of no reason why both categories of resources should not have the option – but not the requirement – to be counted for RA throughout the year. CESA is aware of no similar precedent under either incentive programs or RA procurement generally. Other emergency reliability programs – the Emergency Load Reduction Program (ELRP) and Demand Side Grid Support (DSGS) programs – both allow for projects that provide RA to also provide incremental dispatch under these programs. Further, incentive programs such as SGIP also allow for DR program participation, and participation in RA. CESA recommends that the allowance to provide RA in all program months be extended to all DEBA resources.

The workshop presentation proposes to withhold 10% of program funding if a DER resource does not provide resource adequacy capacity during non-program months, November – April. Said another way, the CEC proposes to withhold 10% of funding (up to $45M) from a program clearly intended to relieve grid stress during emergency conditions to require production of a different energy market product during non-emergency times. While CESA appreciates the overall goal of value stacking for all energy storage resources, both BTM and IFM, this 10% set aside is an inappropriate use of DEBA funding and should be removed from the guidelines.

Draft Guidelines are Missing Key Details

CESA appreciates that DEBA awardees are not required to participate in any specific program. However, crucial details as to minimum grid conditions during which the resource will be expected to dispatch are missing entirely. Further, the guidelines defer nearly all details about the program criteria to the request for offer process, wherein these criteria will ostensibly be set on a solicitation-by-solicitation basis.

The guidelines also do not describe the evaluation process, nor how projects with differing criteria will be compared and evaluated. For example, Table 4 in the draft guidelines shows a list of technical scoring criteria which includes, under "capacity and availability", item C, which states: "*Proposal describes a clear and reasonable measurement and verification plan that describes how performance during an emergency electrical grid event, including additional power generated, will be metered, documented, and reported to the CEC for verification*."[3] Yet, the guidelines leave out two critical details – 1) what are the minimum expected dispatch criteria under emergency grid conditions; and, 2) how will projects with different proposed criteria be compared and ranked? To this latter point, one project may propose that it will dispatch during all EEA events, including Watch, while another may propose that it will dispatch during all EEA events and when day ahead wholesale market prices reach a certain level – say, $500/MWh - in any hour. How does the CEC propose to compare these projects? Further, how will a project prove that it "*replaces or displaces fossil fueled generation*"?[4] Would it be sufficient for a project to be located in an area with a fossil fueled generator interconnected at the same point of interconnection (POI), or in the same local capacity area (LCA)?

Conclusion

CESA appreciates consideration of these comments and commends the staff for the hard work and receptivity to stakeholder feedback in developing this program.

Respectfully,

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