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Southern California Public Power Authority Comments on Draft DEBA Guidelines

Additional submitted attachment is included below.

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

RE: Staff Workshop on the Distributed Electricity Backup Assets Program Guidelines

The Southern California Public Power Authority[1] ("SCPPA") is pleased to provide feedback on the Staff Workshop on the Distributed Electricity Backup Assets (DEBA) Program Guidelines held on August 15, 2023.[2] SCPPA strongly supports the efforts of the California Energy Commission ("CEC") to prepare for extreme events by incentivizing construction of cleaner and more efficient on-call emergency assets. Further, we applaud the state's recognition—through programs like DEBA—that providing non-ratepayer funds to help strengthen grid reliability with more clean energy resources will be critical to mitigating increased electricity costs for California's residents and businesses.

To encourage publicly owned utility (POU) participation, it is critical for the DEBA Program to consider the unique needs of POUs—including those related to financing, grant writing, and resource adequacy. As such, SCPPA appreciates the opportunity to work with CEC staff on this program and, in response to CEC's questions presented at the Staff Workshop, SCPPA provides the following:

1) **Are the proposed grant funding opportunity (GFO) payment structures effective and adequate to spur development of a project and ensure participation during an emergency event? Should alternative approaches be considered?**
   SCPPA urges the CEC to revise the proposed payment structures to provide more certainty to POUs and developers. Typically, SCPPA Members procure resources via power purchase agreements (PPAs) with developers who own and operate resources. For new resources, PPAs are negotiated before the project completion date and the availability of grant funding plays an important role in those negotiations. Both POUs and developers will benefit from knowing exactly when the grant awards will be approved and executed and for that financial certainty to come as quickly as possible.

[1] SCPPA is a joint powers authority whose members include the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, and Vernon, and the Imperial Irrigation District. Each Member owns and operates a publicly owned electric utility (POU) governed by a board of local officials. Our Members collectively serve nearly five million people throughout Southern California. Together they deliver electricity to over two million customers throughout Southern California, spanning an area of 7,000 square miles.
[2] Energy Commission Docket #22-RENEW-01, Document #251627, https://efiling.energy.ca.gov/GetDocument.aspx?tn=251627&DocumentContentId=86524

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Grant funding such as DEBA can also improve the viability of utility-owned and operated assets. For these situations, SCPPA and SCPPA Members have two options for funding projects: incorporating the costs into an operational budget or debt financing. The limitations of the proposed payment structures, especially the periodic disbursal of funding over five years, may lead to difficulty in using the funds, especially in support of larger, more expensive projects for which grant funding is the most critical. The core necessity for utilizing DEBA grants for tax-exempt debt-financed projects is the certainty of whether the award has been granted, which needs to be confirmed before project construction, and the precise payment date(s).

For projects with longevity of 30 years or greater, tax-exempt bond financing is the preferred debt financing mechanism, but the complexities may not fit well with the complexities of grant funding. As an example of possible complexities, when SCPPA or SCPPA Members engage in tax-exempt bond financing, there are restrictions on the over issuance of tax-exempt bonds, especially when there is dedicated funding available for the project. Any tax-exempt debt that financed the grant funded portion of the project generally needs to be repaid immediately upon receipt of the grant funds. The immediate pay down of debt may not be easily achievable depending on how the long-term debt is structured. There are other financing structures that POUs can use to align the principal debt payment with the receipt of grant funds. However, those structures can have higher carrying costs.

The ideal payment structure for a bond-financed project to build a grid-connected asset, such as a grid-scale battery, is for 100% of the award amount to be disbursed upon a specific date before debt financing is needed, i.e., before construction begins. The CEC has proposed commercial operations date (COD) as the date of disbursal, which may be viable so long as the project is confirmed as an awardee before construction. One downside of using COD is the chance that the project will not become operational exactly on its estimated COD. There are financial mechanisms available for POUs to accommodate the uncertainty of the precise COD, but they also incur additional costs. Alternatively, 50% of funding upon COD and 50% after 1 year to show proof of performance may be viable, but the longer it takes CEC to disburse funds, the greater the carrying cost of the debt for the POU.

Without help and flexibility from the CEC, the uncertainty of grant award and the timing of grant fund receipt will limit POUs' ability to use DEBA funds for only smaller programs that can be funded out of operational budgets or more expensive short-term debt. SCPPA urges CEC to be flexible in accommodating POUs when/wherever possible to enable POU customers to maximally benefit from the 25% of DEBA funding that has been allocated for projects in POU service territories.

2) **How much time does your organization need to respond to a GFO? What internal process and timetable is associated with applying for funds and entering agreements? Are there specific administrative elements that could be included to streamline the application process?**

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Many small and medium-sized utilities do not have internal grant writers and often do not have the staffing resources to respond quickly to GFOs. However, as a joint powers authority, SCPPA provides its Members with a master services agreement with a consulting group that has established the administrative framework for expediting the execution of a grant writing services agreement with SCPPA Members, should they take advantage of it. While the length and complexity of the application requirements and the related process will ultimately determine the ability to respond in a timely fashion, a reasonable rule of thumb would be to provide a minimum of 90-120 days from announcement to submittal date. Of course, any process CEC could establish to allow for a "heads up" ahead of formal announcements would be greatly appreciated and would expedite the response time by SCPPA Members. A SCPPA Member that has not previously engaged in grant writing services but does have access to SCPPA's existing resources can take longer to go through the budget approval process to create a task order to fund the work.

SCPPA is grateful that the CEC is considering the capacity of all stakeholders to navigate the challenges of seeking state grants. SCPPA encourages CEC to apply these considerations throughout the grant award process and streamline wherever possible throughout the project reporting process as well.

3) **Does your potential project qualify for Federal tax incentives, such as the production tax credit or investment tax credit?**
The Inflation Reduction Act does have provisions for tax-exempt entities like SCPPA and its Members to receive direct payments equivalent to the investment tax credit and production tax credit. However, the rules for these payments are still being developed by the Department of Treasury. The eligibility of POU projects—and the ability of POUs to meet whatever requirements may exist to access those funds—is unknown at this time.

In addition to the responses to CEC staffs' questions above, SCPPA also provides the following comments and recommendations for the CEC to consider:

1) **SCPPA strongly supports the 25% funding allocation for projects in POU service territories.**
SCPPA is grateful to the CEC for recognizing that POUs serve approximately 25% of the load in California and appreciate that the CEC is allocating funds to ensure that POUs can access the benefits of the DEBA program. This allocation is important to ensure that POU customers receive a proportional amount of the benefits, as POUs often do not have the staff or fiscal resources to manage grants. The risk of not being awarded funding makes it difficult to justify spending public dollars on the effort, so SCPPA is appreciative of the allocation which puts POUs on a level playing field.

2) **SCPPA urges the CEC to consider the overall benefit a DEBA asset will provide to system reliability and allow the non-DEBA funded portion of the resource to participate in the POU's reliability programs during summer months without forfeiting a portion of the DEBA payment.**

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The proposed DEBA guidelines for bulk grid assets permit enrollment of the added capacity in a resource adequacy (RA) program without forfeiting any of the grant amount. SCPPA is grateful for this flexibility and encourages CEC to extend such considerations to distributed assets as well. The proposed guidelines decrement the grant amount by 15% for each summer that a distributed asset participates in RA. SCPPA believes that this approach has two weaknesses in terms of system reliability: First, CEC is charged with providing recommendations to POUs on increasing their planning reserve margins, which, for POUs in the CAISO, means increasing their RA commitments. And secondly because RA is a reliability measure that is more directly integrated into the existing power system and is deployed *before* grid constraints rise to the level of an emergency. From SCPPA's perspective, a backup asset is more likely to be deployed efficiently and to have the greatest impact on system reliability when POUs are given flexibility to allocate resources to best fit system needs.

CEC staff have indicated that specific measures for on-call performance will vary depending on technology and GFO. SCPPA suggests that a proportion of a distributed resource project's capacity equal to the percentage of project costs funded by the DEBA grant be subject to the on-call performance requirements in the GFO and the remaining capacity be allocated to any of the POU's reliability programs. This achieves the statutory requirements of serving as on-call emergency resources, provides flexibility for DEBA-funded assets to prepare the grid for extreme events through both the normal preventative processes and through extraordinary emergency measures, and allows POUs with steep RA requirements to more strongly justify the cost of a project to their governing boards.

Thank you for the opportunity to provide comments on the DEBA proposed guidelines and payment structures. SCPPA looks forward to continuing to collaborate with CEC and other stakeholders as this critical reliability funding program is further developed and refined.

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