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Comments of Convergent Energy and Power on Distributed Electricity Backup Assets Program Workshop and Guidelines

Additional submitted attachment is included below.

CONVERGENT

August 31, 2023

Email to: docket@energy.ca.gov
California Energy Commission
Docket Number: **22-RENEW-01**
715 P Street
Sacramento California 95814

Re: Comments of Convergent Energy and Power on Distributed Electricity Backup Assets (DEBA) Program Draft Guidelines and Workshop

Dear Sir or Madam:

Convergent Energy and Power ("Convergent") appreciates the opportunity to provide public comments to the California Energy Commission ("CEC") in response to the Distributed Electricity Backup Assets ("DEBA") Program Draft Guidelines ("Guidelines") and comments posed to stakeholders at the workshop held on August 15, 2023 ("Workshop") to discuss the Draft Guidelines. Convergent is a leading independent owner and operator of energy storage and solar-plus-storage solutions in North America. Convergent has over a decade of experience financing and managing all aspects of the energy storage development cycle to help customers reduce electricity costs and increase reliability. The company's commercial, industrial, and utility-scale assets yield savings while advancing the clean energy transition. Convergent has over 500 MW/800 MWh of storage and solar-plus-storage capacity operating or under development. The CEC is taking great steps toward mitigating the risks California's electric grid faces today by implementing the Distributed Electricity Backup Assets ("DEBA") program which has the potential to unlock important investment opportunities in California, especially for Commercial and Industrial (C&I) customers.

Convergent believes the DEBA program can help provide critical capacity that is needed in the near term while simultaneously reinforcing California's local economy because it can unlock significant opportunities for C&I customers to invest in distributed resources. On the following is an Executive Summary of our proposals for the Guidelines followed with detailed commentary.

EXECUTIVE SUMMARY

I. ***CEC Questions*** - Answers directly addressing CEC questions posed during Workshop.

II. Timing and Process of Solicitations

- Details in Guidelines as fast as possible for December 2023 GFO
- More details on definition and weighing of Technical Citeria
- Additional categories for minimum allocations of funds (C&I)

III. Dispatch triggers, notification and performance requirements

- Set Day Ahead and simple.
- Set a minimum and maximum number of events per month and year.

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IV. Dual Participation with BIP
- Incremental or previous BIP participation is in the spirit of legislation and should be allowed in parallel with DEBA.

V. **Definitions of Bulk Assets and Distributed Resources**
- Distinguish based on transmission versus distribution connected.

VI. Project Application and Contracting Requirement
- Guidelines should include what's expected, needed and at risk when submitting a project for DEBA funding.

VII. Structure of Program
- Support design and implementation of an open-incentive program with up front and or performance incentive payments in 2024.

1. ***Are the proposed GFO payment structures effective and adequate to spur development of a project and ensure participation during an emergency event? Should alternative approaches be considered*?**

We believe the proposed GFO payment structure that pays out a portion of the incentive at COD and then a portion annually thereafter based upon performance is reasonable in its objective. We support the CEC's goal to preserve an incentive to perform over the life of the contract without having to worry about complicated claw back or penalty mechanisms.

The Guidelines must however be further clarified to define performance measurements (discussed in more detail below) and how to calculate an annual payment if there is underperformance, whether partial or whole. For example, the first payment under the Guidelines for the Distributed Resource (DR) category is 25 % of total costs when the resource is put in service, with 15% paid after each of the following five summers (the Commitment Period). Assume 2 emergency events in program year 1, and a DR DEBA resource performed 100% for one but only delivered 50% of its commitment during the second DEBA event. Assume a second DEBA DR resource that performed 100% for the first event but 0% for the second DEBA event. It is important to define in advance how those different payments will be calculated. There should also be consideration given to a year that does not have a DEBA event. Is it appropriate to assume the annual payment of 15% of total cost would be made in full? With that said, we are not opposed to changes to the percent allocation across the initial payment and then each of the 5 annual payments.

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

The question posed should focus on the time between submission of a project proposal/offer to the CEC and notice of award. The economics of projects can change with the passage of time, and there is a need to coordinate with customers, landowners, vendors, many of whose commitments can be contingent on qualifying for DEBA incentives. There are multiple parties impacting different variables in total overall project costs, and the length of time those parties must hold their commitment(s) and or prices firm dictates the risk premium they must build into their prices and quotes. Accordingly, it is important there be minimal time between submitting project proposals in a GFO and notice of award.

This is particularly complicated when applied to C&I distributed resources and could be a barrier to those projects competing with front-of-the-meter (FTM) projects that have less cost variables. The

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economics of many C&I BTM standalone storage resources cannot be justified without DEBA funds. This creates risk in spending money on a project without confirmation of eligibility and amount of DEBA funds. Major costs are incurred throughout the development stages (e.g., commitments for land, engineering, equipment, labor, interconnection, etc.), and there is a point at which this spend cannot proceed without a commitment for DEBA funds, reinforcing the need for a quick turnaround between proposal submissions and notice of DEBA award.

When focused on a developer's needed response time to prepare projects for submission in a GFO this depends on the level of details known in advance, in both the Guidelines and the GFO solicitation. It is possible to prepare projects for the December 2023 GFO, but it is difficult because the Guidelines are drafted at high-level and there is an expectation of near-term delivery targets for summers 23/24.

The CEC should be mindful that projects that can COD by summer 2024 are likely far enough along that they will be built regardless of the DEBA incentive. This is because the investment funds necessary to advance the project this far would already have been secured. Granting DEBA funds to those projects de-risks them, making them more attractive to their investors, but that diverts DEBA funds that could have otherwise been granted to other projects that do not yet have firm investment commitments. We appreciate the reliability value of earlier COD dates but believe DEBA funds can be more equitably distributed if the proposed December 2023 GFO includes projects with 2025 proposed COD. Setting a cap on the amount procured in the December 2023 GFO will help ensure efficient distribution of funds.

Regardless of the COD requirements however, we strongly recommend the CEC provide as many details as quickly as possible for the December GFO and the Guidelines. Discussed throughout our comments we highlight the important items that need to be clarified as soon as possible such as technical criteria weighting, performance requirements, interconnection requirements to apply for DEBA, eligibility for other programs, etc.

Also discussed herein is our support for an open-incentive style program as opposed to GFO solicitations. It is important to note that the concerns and questions raised here about the complications of a GFO for C&I BTM projects would be avoided if there were a clearly defined open-incentive program with up-front and or performance incentive payments.

3. ***Does your potential project qualify for Federal tax incentives, such as the production tax credit or investment tax credit?***

Eligibility for Federal tax incentives, and values of those incentives, are driven by the unique characteristics of each individual project. Optimizing all aspects of tax credits available is a key factor in developing our resources. The recent inclusion of stand-alone-storage in the investment tax credit was an important development in making battery storage economical for many California C&I customers, however there is still a need to cover costs from other sources to justify many of those investments. The layering of the DEBA incentives will make investments in stand-alone California BTM storage a reality for more C&I customers.

I. Timing and Process of Solicitations

As discussed above, the details needed for the proposed December 2023 GFO are needed as soon as possible. We encourage the CEC to include as many details in the Guidelines as possible without waiting for the subsequent release of individual solicitations. Not only does this allow developers to best prepare for the December 2023 GFO, but this will provide consistency across future DEBA solicitations/assets.

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The CEC should identify the number and timing of subsequent solicitations it intends to conduct. There is a strong likelihood that a high demand for DEBA funds will exhaust the legislative allocation quickly, especially if there are a handful of larger project awards in the first GFO. Given the lengthy development and sales process for most C&I BTM projects, preparation for a 2024 solicitation should start now/in the very near future.

One of the biggest drivers in preparing for the December 2023 GFO, and future incentive opportunities is how the Technical Criteria are interpreted from the descriptions in the Guidelines, how they will be weighed against each other, and how they will be weighed across proposed projects. For example, there is a Technical Criteria to evaluate M&V plans for projects, but there are no defined performance requirements around which to define an M&V protocol. As discussed in more detail below, we strongly encourage the CEC to include clearly defined performance requirements in the Guidelines.

The Technical Criteria include size and duration, however there is no indication what size and duration characteristics the CEC wants to maximize. Should this be interpreted as larger projects with longer durations will be valued more than smaller ones? We do not believe that is the CEC's intent, so at a minimum the Guidelines need further clarity on how larger projects will be compared to smaller projects. The CEC should consider mechanisms to ensure transparency and equity across resources such as caps on project sizes, or assigning tranches of funding to specific types or sizes of resources to ensure minimum procurements are achieved for different types of resources, e.g., at least 50 % Distributed Resource funding to C&I locations and the remaining to FTM or C&I.

Cost-effectiveness is an attribute the CEC has prioritized, but there is no direction provided on how to calculate cost effectiveness, creating the potential for widely different interpretations across projects. This lack of transparency makes it difficult for developers to competitively price their projects, which will cause cost inefficiencies for the CEC's deployment of DEBA funds.

Finally, as discussed in these comments, we support CEC developing an open-incentive based program to award DEBA incentives to qualifying projects based on availability of funds. Given the differences in customer and investment decisions when preparing projects for a competitive solicitation versus an open-incentive program, it is important that the CEC approved Guidelines give clear direction on which will be implemented.

II. Dispatch Triggers, Notification and Performance Requirements

There are two core components of the performance requirements that the CEC must describe with clear terms in the Guidelines:

- Definition of an *Extreme Event*
- Define Timing, Communication and *Trigger for Dispatch*.

The optimal dispatch trigger for many reasons is a Day Ahead notice driven by likely indicators of extreme events such as, but not limited to price, load forecast, heat and humidity indices, wildfire forecasts, etc. This benefits resource management because it allows for advanced preparedness at C&I sites and best helps manage customer expectations. This benefits reliability by ensuring performance when needed most, and helping grid operators better prepare in advance as opposed to responding to extreme events. Furthermore, language from the text of the Public Resources Code specifically include circumstances forecast in advance.

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The only legislative guidance is that recipients of funds "participate as an on-call emergency resource for the state during extreme events" Cal. Pub. Resources Code § 25791. It does not need to be complicated to be effective and reliable, and the CEC can minimize administrative burden and cost on itself and program participants by defining a simple dispatch trigger in the Guidelines.

As stated above, examples of measurable triggers that can be used as a signal for dispatch include but are not limited to Day Ahead clearing prices and load forecasts, weather and or fire forecasts, or heat and humidity indices. The CEC can preserve as much flexibility for itself as possible by defining in the Guidelines multiple triggers that could serve as a dispatch signal. For example, the Guidelines could set forth that DEBA resources must reduce consumption or increase output to committed levels during the operating window when (i) Day Ahead clearing prices reach $200, or (ii) the day ahead load forecast is +/- 5% of the greatest overall system peak, or (iii) the heat and humidity index forecast for the following day is ###, etc.

Additional components of performance obligations the CEC should include in the Guidelines are the minimum and maximum number of events per year and month that DEBA recipients should plan for. If the CEC feels testing requirements are appropriate under the legislation, that should also be set forth in the Guidelines.

III. Dual Participation with BIP

We appreciate the CEC's reinforcement of the narrow legislative intent to fund resources to help in extreme grid conditions and the model it provides for other jurisdictions grappling with how to plan for unpredictable extreme events. We recognize the importance of not allocating DEBA incentives to MWs "already" being paid in other programs and accept there will be limitations during the 5-year DEBA commitment. However, the absolute prohibition on BIP customers receiving DEBA incentives is overly broad and unreasonably prevents the CEC accomplishment of maximum generation capacity for the California strategic reserves.

The first clarification the CEC should provide in the Guidelines is that a customer who was previously, but not simultaneously, on BIP *IS* permitted to seek DEBA funds to deploy new BTM battery storage resources. An example scenario is C&I customer with a 5 MW BIP commitment achieved by shifting consumption who wants to invest in a 5 MW BTM battery so there will be no impact on or need to shift operations during events. This accomplishes the goal of investing in new strategic reserves, and the customer should be eligible for DEBA incentives.

The second clarification needed in the Guidelines is that incremental customer commitments in BIP and DEBA during the same year should be allowed. A slight variation on the above example could be a C&I customer who has a 20 MW BIP commitment achieved by shifting consumption who now wants to invest in a 5 MW BTM battery so there are fewer impacts on operations during events. This customer would continue to commit 15 MWs of behavioral reduction into BIP, while applying DEBA incentives to the investment in a 5 MW battery. The battery would ensure delivery of the 5 MW reduction for a DEBA program dispatch, and the customer would shift the rest of their consumption to deliver the 15 MWs of commitment during a BIP event. This also accomplishes the expansion of California's strategic reserves and does not pay for performance that would have otherwise occurred; accordingly, the customer should be eligible for the DEBA incentive. Furthermore, the battery built with DEBA funds delivers additional value and reliability to the grid that the customers behavior could not otherwise accomplish consistently over time.

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IV. Definitions of Bulk Assets and Distributed Resources

The CEC should ensure the Guidelines include clear definitions of what qualifies as a Bulk Asset versus what qualifies as a Distributed Resource. In the event the CEC's intent is to distinguish based on the former being transmission connected and the latter being distribution system connected, it will be important to specify this in detail in the Guidelines. To avoid any ambiguity, the Guidelines should also specify that both BTM and FTM resources qualify as Distributed Resources if they are distribution connected. There should also be reference made to unique physical configurations, such as radial connections, to ensure clarity about which category that falls into.

V. Project Application and Contracting Requirement

The Guidelines need greater detail on what requirements a developer must demonstrate to be allowed to submit a project into a GFO, for example, status of interconnection application or land control. Are there creditworthiness or other criteria applicants must satisfy? The implications and liability of offering a project and being given an award in a DEBA solicitation should also be addressed in the Guidelines. For example, the CEC should clearly outline the liabilities and cost responsibilities of the parties in the event of delayed schedules or changes to total project costs both (i) after an award but before contracting, and (ii) after a contract is signed. These details must be in the Guidelines, and not left to the solicitations themselves because these are all risk factors that carry costs and need to be factored into the design of projects at the early stages.

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VI. Structure of DEBA Program

An open-incentive based approach with set $/kW and or $/kWh rates for upfront payment and or performance payments is a proven model for the deployment of incentive funds, and we believe the CEC should consider this model. We appreciate the desire and need to leverage the GFO model for December 2023, and our remarks throughout these Comments are intended to help ensure success of that GFO. We believe however that the CEC should (i) indicate its clear intent to use an open-incentive program for future commitment of DEBA incentive dollars, and (ii) establish parameters and timeline for development of the open-incentive program to implement in 2024.

Convergent sincerely appreciates this opportunity to provide comments on the future of DEBA and looks forward to working with the CEC on further development and implementation.

Sincerely,

Katie Guerry

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SVP Regulatory Affairs
Convergent Energy and Power

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