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CALSSA DEBA DER GFO Comments

Additional submitted attachment is included below.

March 15, 2024

California Energy Commission
Docket Unit, MS-4
715 P Street
Sacramento, CA 95814

Re: Docket No. 22-RENEW-01—Comments on DEBA Draft GFO

California Energy Commissioners and Staff:

The Distributed Electricity Backup Assets (DEBA) program was established to incentivize the construction of cleaner and more efficient distributed energy assets that can serve as on-call grid resources during extreme events. The California Solar & Storage Association (CALSSA) appreciates the opportunity to provide input into the program's development, including in response to the current Distributed Energy Resources for Reliability Draft Solicitation Concept (Draft DER GFO) released on February 23, 2024, and the staff workshop held on March 5, 2024.

CALSSA supports the program goals of accelerating deployment of distributed energy resources (DERs) that can serve as reliability assets during grid emergencies. In August 2023, we submitted comments on the draft DEBA Guidelines and a CEC staff workshop, including a proposal for an incentive approach that could quickly accelerate deployment of behind-the-meter (BTM) batteries and battery aggregations.[1] We continue to support an incentive-based approach, as explained below and more fully in our August 2023 Comments.

These comments also address several points in the Draft DER GFO, with the aim of making the GFO more effective and increasing its potential to result in substantial new distributed reliability assets being deployed successfully and efficiently.

A. Open Incentive Approach

In prior rounds of comments and at past workshops, CALSSA and several other stakeholders recommended that the CEC use an open incentive approach to distribute DEBA funding.

This is the best approach to quickly deploy DER technologies that are proven and ready to deploy at scale. These are the types of technologies that this Draft DER GFO targets, as the

[1] CALSSA Comments on Draft DEBA Guidelines and August 15, 2023, Workshop, submitted August 31, 2023, TN # 252105 (CALSSA August 2023 Comments); see pp. 16-20 for CALSSA's proposal.

Draft GFO specifies all eligible technologies must be commercial ready. Specifically, the incentive approach is appropriate for BTM battery systems, which use well-established technologies and are standardized so that eligibility can be established easily and quickly, and funding can be awarded based on standardized metrics.

An open incentive program would be more equitable and conducive to bringing in resources from a broad range of customers and providers. It would provide greater certainty to applicants and reduce the complexity and resources required to apply for DEBA funding. The benefits of this approach include reduced administrative timelines, clear expectations established up front, certainty about the availability and amount of funding for both customers and developers, and more capacity installed sooner. By contrast, using a GFO approach creates risks and challenges that will likely depress participation and reduce the number of resources that can be brought online, by restricting both applications and funding to a smaller number of grant recipients.[2]

For the reasons set out by CALSSA and others in the past, we strongly urge the CEC to follow the current DER GFO with an incentive-based approach. Even if all funds allocated to the prior bulk-grid asset GFO and the current DER GFO are awarded, unallocated funding will remain in DEBA.[3] An incentive program could be developed beginning this year, for launch potentially as soon as early 2025.

B. Comments on Draft DER GFO

CALSSA appreciates the substantial effort and thought that the CEC has devoted to developing the Draft DER GFO. We offer several suggestions to better enable the GFO to result in successful, effective proposals.

1. Group 2 Minimum Project Capacity

Group 2 would encompass proposals for virtual power plants (VPPs)—projects involving DER equipment at multiple sites aggregated to perform as a single resource. The Draft DER GFO provides that a proposed Group 2 project must meet a minimum rated project capacity of 15 MW.

This minimum capacity is unrealistically high, and is will effectively prohibit participation. Very few BTM battery VPP project developers would be able to come close to that level of deployment on a timeline approaching the project readiness schedule in the DEBA Draft DER

[2] CALSSA August 2023 Comments, pp. 1-5.

[3] Barring budget reallocation. Given the compounding risks to reliability posed by climate change and related factors, we strongly support the preservation of funding for DEBA.

GFO. The threshold will need to be adjusted downward substantially to maintain bidder interest and avoid cutting out the great majority of potential projects.

In the Demand-Side Grid Support (DSGS) program, the minimum nominal power rating of a BTM battery VPP under DSGS Option 3 is 100 kW for an aggregation of customers in a publicly owned utility or community choice aggregator territory, or 500 kW for an aggregation in an investor-owned utility territory.[4] At a workshop held on March 12, 2024, CEC staff raised the potential of reducing the minimum size per aggregation and of applying it across territories.[5] The proposed minimum project capacity for DEBA VPP projects is more than an order of magnitude greater than the current or contemplated DSGS minimum aggregation size, including taking into account that a VPP of 2-hour resources would need to have an aggregate nominal capacity of 30 MW to meet the 15 MW rated capacity threshold.

We recognize that DEBA and DSGS have different emphases, and we do not mean that DEBA should adopt the DSGS minimum capacity thresholds. That said, the dramatic difference is instructive and suggests that DEBA's threshold is out of proportion to what can reasonably be expected. It's important to keep in mind that DSGS takes advantage of an installed base of BTM batteries, whereas a DEBA project would require deployment of new resources.

Additionally, we do not see a good reason for requiring a minimum rated capacity for Group 2 VPPs that is more than double the minimum rated capacity for Group 1 projects.

For these reasons, we recommend that the CEC reduce the minimum project capacity from 15 MW of rated capacity to 1 MW of rated capacity.

During the workshop, in response to concerns raised about the 15 MW threshold, CEC staff raised the possibility of a proposal that combines several smaller aggregators into a single proposed project with a lead applicant, and solicited input regarding how realistic this approach would be. Rather than making the 15 MW threshold more attainable within the proposed timeframe, this approach would introduce additional obstacles. The lead applicant would need to identify and negotiate with partners to be able to submit a project proposal. The lead applicant would ultimately be responsible to ensure the full capacity is provided in order to receive DEBA funding, but would have less ability to guarantee that the capacity is deployed and available in the required timeframes. To reduce the risk, the lead applicant would need to have legal agreements in place in advance so that if the CEC accepted the proposal and then a partner withdrew, the lead applicant would not bear all the risk of not being able to meet the

[4] See Demand Side Grid Support Program Proposed Draft Guidelines, Third Edition, Publication Number: CEC-300-2024-002-D, p. 22.

[5] Demand Side Grid Support Program Staff Workshop Presentation Slides, March 12, 2024, TN # 254993, p. 20.

capacity commitment. For these reasons, this approach is impractical within the framework of this GFO, although it bears some similarity to an incentive-based approach in which funds would be administered and distributed by a program administrator.

2. Project Readiness Timelines

The proposed project readiness schedule is of concern and should be rethought. For projects of all sizes, many aspects of the development process are outside project developers' control, including interconnection timelines, which have been experiencing substantial delays.

Larger projects on the distribution system (including but not limited to commercial storage projects) face timelines that make the draft GFO's timelines unworkable. For DERs sized larger than 1 MW, the investor-owned utilities' Rule 21 tariffs require additional studies and screens. One of these screens examines the project's electrical independence from the transmission system. Given the unprecedented volume of utility-scale projects that entered the CAISO queue in Cluster 15, these screens show the grid as completely clogged, leading nearly every distributed generation (DG) resource over 1 MW to fail and be removed from Rule 21. This situation has created untenable delays for the non-residential market for BTM storage, rendering the CEC's proposed timelines unworkable for this market segment.[6]

The Draft DER GFO's interim project completion targets for multi-phase projects are impractical. As contemplated in the draft, the first deadline for installed capacity would be May 1, 2025, less than 8 months after the currently contemplated approval at the September 2024 CEC Business Meeting. Any delays in the schedule for approving the DEBA awards would further shorten the time developers have to meet the first milestone. This timeline would be hard to meet for many projects, particularly given "startup time" for activities necessary to begin recruiting customers at the outset of the program.

Additionally, for many nonresidential projects, the deadline of May 1, 2027, to have projects fully online is realistic only in cases where the development process goes smoothly with no delays. Some individual projects that are already in later stages of the pipeline might be able to be included in a DEBA project, but there is enough uncertainty that it would be difficult to rely on existing projects to meet the capacity requirement when submitting a proposal.

CALSSA recommends that final project completion deadline be moved to May 1, 2028, and that the interim milestones for multi-phase projects be eliminated.

If the CEC does not omit the interim deadlines, they should be moved back, and the percentages should be reduced. For example, the first deadline should be May 1, 2026, or at a

[6] This issue equally affects 1 MW+ projects in the DEBA DG technologies category.

minimum, at least one year after GFO awards are approved, and should be less than 25% if it is sooner than May 2026; the second deadline should be May 1, 2027, or should be less than 50%.

Further, these interim deadlines should not apply to larger projects, such as commercial storage projects, and especially projects that would be subject to the Rule 21 screen issue.

The project readiness requirements must also allow for time extensions to be granted for circumstances beyond the applicant's control, including interconnection issues, supply chain disruptions, and permitting delays.

3. Projects with Unidentified Sites

The DER GFO must allow Group 2 project proposals to not have all sites or customers pre-identified, and it should not score them lower than proposals with identified sites or customers.

As explained in CALSSA's August 2023 Comments, attracting customers is extremely challenging without assured funding.[7] Most customers will not agree to purchase a BTM battery without knowing the amount the cost they must bear. Attempting to generate leads and sign on customers with a promise of funding could lead to dissatisfaction and confusion if the funding falls through.

Thus, requiring applicants with pre-identified customers or sites would create a Catch-22 for project developers and aggregators: they cannot sign on customers without having funding available, but they will be less able to obtain DEBA funding without having signed on customers.

Further, given this challenge, it is inadvisable to score Group 2 projects lower if they do not have pre-identified customers or sites. Knowing that a VPP proposal without customers already identified may be scored lower than other proposals will discourage several prospective applicants from submitting valuable proposals.

Additionally, pre-identifying customers at the time of application means that even if funding is eventually provided, customers will face a lengthy delay between signing on and having resources installed—considering both the period between initial proposal submission and an eventual award, and the period between the award and actual resource deployment. Many customers, both residential and nonresidential, would find this a frustrating experience. The DER GFO should not encourage that approach.

Moreover, scoring projects lower if they do not have pre-identified sites or customers is discriminatory and presents a fairness concern if the CEC allows pre-identified sites to be replaced with other customers or sites later in the process. This could happen if a pre-identified site became unavailable for a DEBA deployment or dropped out for some other reason.

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[7] CALSSA August 2023 Comments, p. 9.

Avoiding that fairness concern would require the CEC not to allow sites or customers to be replaced—itself a problematic result.

4. Funding Allocations and Maximum Award Amounts

First, CALSSA supports having a separate funding allocation for each group. Combining the funding for Groups 2 and 3 creates an additional risk for Group 2 applicants of not receiving an award. This will further reduce the number of potentially valuable proposals. The DER GFO should provide dedicated funding for Group 2.

It is concerning to combine Groups 2 and 3 particularly because Group 3 is conceptually distinct in several ways, including that eligible applicants must be load-serving entities or utilities (or an entity under contract with an LSE or utility, applying on its behalf), and that the Draft DER GFO would provide up to 100% of eligible project costs, unlike Groups 1 and 2. With the current allocation, over three quarters of the total funding available through this GFO could be awarded to LSEs and utilities in Group 3.

In reallocating funding buckets, it would make sense to provide more funding to Group 2 than Group 3 rather than allocating $95 million to each. In Group 2, eligible costs include costs of acquiring and constructing new storage and distributed generation equipment. Group 3, by contrast, limits eligible project costs to incentives for purchase and deployment of technologies that enable load flexibility, excluding the appliances themselves (such as electric water heaters, HVAC equipment, EVs, and so forth).

Second, the maximum award for each group should be reduced. The current maximums would allow for only two projects to be awarded funding in Groups 2 and 3 and only three projects in Group 1. This magnifies the risk that the great majority of proposals may not be selected for funding, creating a strong disincentive to invest the resources to participate in the GFO.

5. Performance Demonstration Pathway 2: Market-Aware Dispatch

This performance demonstration pathway is largely modeled on the DSGS Option 3 market-aware BTM battery storage pilot. CALSSA recommends that the DEBA pathway be modified to more closely align with the DSGS program design, or preferably allow participants to participate in DSGS or rely directly on the DSGS design.[8]

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[8] CALSSA's proposal for DEBA included an option for meeting DEBA performance requirements through participation in an approved emergency response program, and another option for following the operational requirements of DSGS Option 3 within DEBA. CALSSA August 2023 Comments, pp. 17-19.

First, this pathway should not include CAISO EEA events among its dispatch triggers. CALSSA has set forth many reasons for not including EEA events in DSGS Option 3,[9] several of which apply to DEBA as well. Notably, using multiple triggers—especially day-of triggers—makes it harder to explain the program requirements to customers, and it complicates dispatch logic and requires additional resources to manage resources, adding costs. This will make participation less attractive to customers and make it more challenging to build aggregations.

Second, DSGS Option 3 is triggered by CAISO day-ahead locational marginal prices (LMPs) of $200/MWh or higher. The expected number of program hours is reasonable for an emergency-reliability program. This same level should be used for DEBA's Pathway 2, instead of the currently proposed $100/MWh.

6. Eligible Technologies and Costs

Group 2 VPP aggregations will often seek to pair BTM batteries with solar PV at a single customer site. Batteries are most efficiently charged with energy from paired solar panels. Making all costs related to the paired solar system ineligible for DEBA funding would encourage installation of stand-alone storage that would be charged from the grid, cutting against the goals of the DEBA program.

The DER GFO should clarify that when a solar-paired storage system is funded through DEBA, costs that are incurred to develop the combined system are eligible for CEC reimbursement. For example, three of the four cost categories for Group 2 in the Draft DER GFP (project pre-engineering and design; engineering plans and specifications; and project installation, construction, modifications, and/or commissioning) relate to the whole system and cannot be easily apportioned into storage and solar components.

Also, VPPs function through aggregation technologies, and the DER GFO should clarify that eligible costs include more than hardware and construction-related costs, such as software and other VPP operational costs.

C. Conclusion

DEBA presents a great opportunity for providing grid reliability using distributed energy assets and demonstrating the value of these resources. While we continue to urge the CEC to adopt an open incentive approach to accelerate deployment of distributed reliability resources, we believe that the DER GFO should move forward so that we can begin using DEBA funding to deploy distributed assets as soon as possible. We appreciate this opportunity to provide

[9] CALSSA Comments on Potential Modifications to DSGS Guidelines, submitted February 5, 2024, TN # 254332, pp. 2-4.

comments, and would be happy to provide additional input as the CEC works to finalize the GFO. We share the goal of making this GFO successful and enabling BTM storage resources and other DERs to provide reliability services for our state's energy system.

Sincerely,

/s/ Kate Unger
Kate Unger
Senior Policy Advisor
California Solar & Storage Association