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Additional submitted attachment is included below.

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California Energy Commission
Docket Unit
715 P Street
Sacramento, CA 95814
Submitted Electronically

Docket 22-RENEW-01 – Convergent Energy & Power Comments in response to DEBA DER GFO Draft Solicitation Concept

Executive Summary

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") draft solicitation concept published February 23, 2024 and presented to stakeholders at the workshop held on March 5, 2024 discussing the draft solicitation. Convergent is a leading independent owner and operator of energy storage and solar-plus-storage solutions in North America with 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 front-of-the-meter distribution-connected assets yield savings while advancing the clean energy transition.

Provided here is a summary of the most critical points raised in our responses to the CEC questions set forth herein. Convergent believes the following are the most important issues for the CEC to consider to ensure maximum success and return on investment of DEBA funds:

- Group 3 should be eliminated from DEBA, as mechanisms to finance and support Load Flexibility Aggregation Programs and their subcomponents can occur under existing rate recovery processes
- Funds previously allocated to Group 3 should be redistributed equally to Groups 1 and 2
- Projects participating in DEBA must be allowed to participate in other load reduction programs to ensure viability for developer cost share
- The consideration of DAC projects should not occur separate from the main project assessment and selection process
- All eligible projects should be able to bid for a cost share of up to 50% project costs gross ITC
- DEBA can attract more DAC projects by offering a slightly higher costs share provided by CEC (such as 60%) or a greater weighting allotted to DAC in the technical screening criteria; DAC and Energy Communities (as categorized by ITC guidance) will likely have some overlap, resulting in an implicit incentive for developers to pursue sites in these areas for their eligibility for a bonus tax credit under the ITC

Question Responses

1. Are the minimum and maximum award amount funding levels and match requirements appropriate for each Group?

Convergent recommends reconsideration of present Group categories and proposed funding allocations.

Group 1 should receive a higher funding allocation as the projects that could be procured best align with the object of the DEBA program. Energy storage assets, both behind-the-meter (BTM) and front-of-the-meter (FTM, sometimes referred to as "in front of utility meter", IFM), have demonstrated value for grid services in California, utilize a commercially-viable technology, and are readily available in queue. According to the stakeholder webinar, the stated objective of DEBA is to encourage the development of distributed reliability resources in a manner that attracts the most capacity in the quickest, most cost-effective manner possible. While distribution-connected storage provides robust value due in part to its ability to be sited in proximity to load, it is a segment that is subject to low certainty of revenue streams. DEBA can and should be leveraged as a mechanism to shore up the financeability gap, which will lead to a fleet of cost-efficient Resource Adequacy resources throughout the state.

Projects solicited under Group 3 should be funded and procured under a mechanism separate and apart from DEBA. Awarding a 100% cost match for a project developed for or by an investor-owned utility or load-serving entity does not allow these funds to be leveraged competitively by requiring cost-share. Vesting up to $95M in potentially a single project for as little as 15 megawatts (MW) also increases the risk of default or underperformance, jeopardizing the progress meant to be accomplished by DEBA in a contracted timeline. Using a conservative assumption (highest single award possible, for minimum capacity commitment), **this suggests a willingness to pay $6.3M per MW under Group 3, and $3.3M per MW under Group 1**. This approach to awarding funds to IOUs, LSEs, or their agents also deviates from the standard approach, in which utilities request reimbursement or "return on investment" for their initiatives under a ratemaking docket or similar forum. Group 3 should therefore be eliminated and its funds divided amongst Groups 1 and 2.

Relative to the developer match requirements, requiring a funding match for Groups 1 and 2 is not an uncommon format. However, the suggested limitation on projects deriving value from participating in other programs during the first five years of project life deeply harms the financeability of potential DEBA assets. Staff's suggestion during the stakeholder webinar that developers would recoup the required 50% cost-share through "value-stacking" does not align with what would be available or certain enough to compel investment. While Resource Adequacy, energy, and ancillary services are all valuable products that can be provided by energy storage technology, the manner in which they are procured— through contracted commitments—does not occur several years in advance of their need or delivery. This inability for developers to contract, model, and finance for the future provision and compensation of these services necessitates that

DEBA projects be allowed to and therefore be able to expect to participate in load reduction programs in addition to DEBA. Too, the expectation that non-DAC Group 1 and 2 bidders are limited to a match of 50% project costs net ITC conflicts with the existing framework of the Self Generation Incentive Program (SGIP), which allows for a true value-stack model in which projects can derive multiple incentives so long as they do not exceed 100% of project cost. Convergent recommends that all projects within Groups 1 and 2 be subject to a maximum cost match of 50% of project costs gross of ITC.

Convergent understands the importance of the involvement and prioritization of projects that are sited in and benefit Disadvantaged & Low-Income Communities (DAC). To ensure that the CEC attracts these projects, we recommend either 1. providing a slightly greater cost share (60%), or 2. allocating greater weight/possible points to the DAC criterion in the bid assessment methodology. The availability of the Energy Community bonus tax credit adder allows projects sited in designated areas to receive an additional 10% towards their investment tax credit, already providing an existing incentive for developers to pursue areas meeting the fossil fuel employment (FFE) threshold and unemployment rate requirement. At time of writing, identified Energy Communities exhibited considerable overlap with downstate DAC, suggesting that the CEC will receive considerable DAC project representation without differentiating cost share between net and gross ITC.

2. Is the proposed timeline in the solicitation, including application submission windows, reasonable to accommodate project proposals for project group?

We encourage the CEC to conduct the DEBA program in a timely fashion given the program's intent to provide additive services and benefits in the short-term given projected system constraints.

However, given the evolving DEBA guidance, it has been difficult for stakeholder developers to position bid preparation in anticipation for the release of final guidelines. Should the date of the debut of this solicitation occur later than the anticipated April timeframe, we ask that the CEC also update its expected project selection date to allow for at least 2 months for bid preparation and submittal.

To allow industry to prepare compelling bids under DEBA on a forward basis, we ask that the CEC provide clarity regarding the schedule and intended products to procure in future solicitations.

3. Is it reasonable to allow project proposals that do not have all sites or customers pre-identified at the time of application? Are there any concerns with this approach?

Allowing "placeholder" or prospective projects comes with the risk of awarding speculative development. For Group 1 projects, project certainty should be required and expected more stringently.

4. To mitigate the risks of funding multiphase projects, staff have proposed minimum deployment targets for multiphase projects under "Project Readiness" (25% by June 1, 2025,

50% by June 1, 2026, and 100% by June 1, 2027). Are these proposed deployment targets reasonable? What measures should the CEC take in the event of a deployment shortfall?

Present guidance suggests that the interim deployment targets would be applied to all multi-phase projects "involving multiple installations or customer sign-ups", requiring them to demonstrate 25% and 50% deployment of total project capacity. It seems the CEC is proposing for these targets to apply to all Groups, despite a lack of clarity as to what constitutes a "project" relative to an individual "bid". While taking this approach for Group 2 projects may be logical due to the scaled nature of a virtual power plant, requiring this standard for Group 1 bids is imprudent. The development of Group 1 eligible technologies such as energy storage, distributed generation technologies, and microgrids do not occur in a linear fashion that would allow for progress to be tracked by percentage built capacity; under the proposed language, a portfolio of multiple projects would either 1. simultaneously develop each project to 25% and 50%, or 2. build project-by-project to meet targets. Either possible interpretation conflicts with standard procurement procedure, in which project materials are procured in aggregate to allow for competitive pricing.

Other proposed provisions in the Project Readiness and Workplan segment of the Evaluation Criteria—such as site control, permitting, procurement orders, and studies—are a more fitting methodology for Group 1. Interim verification of commercial commitment for Group 1 projects should include annual update of timelines and progress on critical workplan items, submitted to CEC or shared in an annual milestone evaluation conference with the project developer and representative of the CEC.

Projects should, at the time of bidding, commit to the CEC's identified timelines and provide evidence of an ability to meet them. However, the CEC should approach target enforcement for selected projects with some flexibility. Deviation from construction timelines is an unfortunate consequence of development-- as seen in the last few years— due to unforeseen circumstances such as major supply chain disruption. The aforementioned milestone evaluation model is an effective tool to provide to the CEC greater certainty and transparency into the timely development of projects.

Notwithstanding the above, we ask that the CEC clarify the discrepancy of the May targets mentioned in the guidance ["3. Project Readiness", pg. 12] and June in this question.

5. Is the proposed payment structure, with 50% of the award disbursed during project development, and 50% disbursed annually based on successful performance, adequate to ensure successful performance by DEBA assets, including during emergencies?

Yes, we believe that it is appropriate to disburse 50% of funds up front and then the remaining 50% disbursed annually based on performance. Linking a portion of the incentive to full performance across the 5 year commitment not only de-risks the projects for the CEC, but also benefits the market overall by ensuring that selected projects get built and perform as committed.

Project Requirements

7. Are the Project Group definitions and requirements clear and adequate to sufficiently target DER technologies and projects capable of supporting statewide grid reliability?

Descriptions of Group 1 and 2 definitions and requirements are clear and adequate. However, Group 3 does not align with the stated intent of DEBA's procurement, as it offers 100% cost match, avails up to $95M for as little as one project that indirectly leads to as little as 15 MW of incremental rated capacity, and is narrowly directed to IOU, LSE, or their contracted solution provider. The stated intent of Group 3 is to develop and implement a Load Flexibility Aggregation Program administered in whole or in part by one or more LSE or IOU. The mechanism with which these entities could petition to establish and finance their program investment through a rate recovery filing is well documented and existent outside of the DEBA process, making Group 3's inclusion redundant and illogical.

8. Are the minimum project capacity requirements for each Group reasonable or should they be adjusted?

The proposed minimum capacity requirements are appropriate.

9. Are there any additional eligible technologies that should be included, or any currently eligible technologies that should be excluded?

As previously indicated, Group 3 should be eliminated from the DEBA program. The current guidelines would invest up to $95M in technologies that do not themselves provide capacity. To borrow from response 1., under a conservative assumption (highest single award possible, for minimum capacity commitment), **this suggests a willingness to pay $6.3M per MW under Group 3, and $3.3M per MW under Group 1**. The funds should instead be reallocated to Groups 1 and 2 to leverage competitive development, technology providing a more immediate contribution to grid reliability, and greater developer cost share.

10. Are the proposed performance pathways sufficient and flexible enough to accommodate the variety of eligible technologies and project groups targeted by this solicitation?

Performance pathways may add unnecessary complexity and administration for CEC, when existing program measurement and verification is sufficient. As referenced in comments by California Energy Storage Association (CESA), existing programs and mechanisms are analogous to the proposed performance pathways.

Pathway	Demonstration Type	Program(s)
1	Market Integrated	DSGS Option 2
2	Market Aware	ELRP, DSGS Options 1 & 3
3	Hourly Dynamic Pricing	N/A currently – electrification rates if modified
4	Daily Dispatch	Forecast-embedded program or rate
5	Emergency Dispatch	BIP, RDRR

These existing frameworks, along with the previously articulated need for DEBA assets to participate in and derive value from programs during early asset lifetime to meet 50% developer cost share, reenforce the logic of allowing dual participation under 100% of project costs.

11. What data should be required from DEBA Program participants for measurement and verification purposes as well as other public reports and initiatives?

Convergent encourages the CEC to utilize measurement and verification standards established in other programs, such as DSGS, to avoid administrative complexity for both program administrator and participants.

12. Are the metering and telemetry requirements for projects sufficient for measurement and verification purposes and determining performance of DEBA funded projects?

Convergent encourages the CEC to utilize metering and telemetry standards established in other programs, such as DSGS, to avoid administrative complexity for both program administrator and participants. Market-integrated projects are already subject to metering and telemetry requirements, which could be leveraged for verification purposes.

Miscellaneous

14. Are the proposed evaluation criteria, including performance points criteria, reasonable and sufficient to achieve the aims of funding DER projects that best bolster grid reliability in the state?

We believe the proposed evaluation criteria are reasonable, however we believe the CEC must address some details in order for the criteria to be fairly applied across applicants.

The information responsive to the "Statement of Financial Need" and the "Project Budget and Cost Effectiveness" evaluation criteria is highly dependent on market forecasts and conclusions of costs, values, and pricing which is very subjective to individual bidders. This subjectivity can create improper incentives for bidders to make their projects look more cost-effective simply based on whether they choose conservative or aggressive economic forecasts.

As a simple example, imagine bidders A & B with identical projects, each asking for the same amount of money toward their project. Bidder A uses an inflated estimation of costs, potentially making their request look more cost effective than bidder B's proposal. Without requirements for DEBA incentive recipients to update their cost assumptions throughout the construction of the

project, the CEC has no means of validating whether Bidder A's costs were reasonable as proposed.

This example also highlights a question on CEC's expectation of how bidders should frame their requests – i.e. should the proposal be for a specific dollar amount or should bidders request a percentage of costs to be covered? By not validating actual costs or revenues, it will be difficult for CEC to confirm whether their total disbursement for a project is the percentage of total costs they thought it would be. As it is common for budgets to change throughout the construction period, there must be certainty in whether an award will be for a fixed dollar amount or a maximum percent of total costs; if the latter, it must be stated whether the percentage will be applied to estimated costs in the proposal or the costs actually realized up to the point of COD.

15. Are the provision for supporting projects that either benefit or are located in DACs sufficient? What other application components could facilitate greater participation from projects located in or benefitting DACs?

To alleviate complexity for both the CEC/program administrator and participants, evaluation of DAC projects should not be subject to separate deliberation.

Given the possibility and likelihood of a participant's bid to include multiple projects, Convergent requests that the CEC provide guidance as to how DAC eligibility will be addressed for a portfolio that may include a blend of projects sited in and out of DACs. A possible approach may be to require a percentage of committed capacity or projects being sited or demonstrating benefit for DACs, or awarding some of the possible 10 points relative to the portfolio's DAC eligibility.

16. What are the potential pathways for DEBA-funded projects across different Balancing Authority and LRAs to continue to provide reliability value after the conclusion of the DEBA program?

Group 1 and 2 projects have high potential to provide Resource Adequacy capacity, wholesale energy, and ancillary services. Some projects may be able to provide services such as time-variable rate management and load shifting for select customers. However, as stated previously, the inability for these assets to derive value in its early life from these services can severely impact their financeability.

17. Are there any other recommended improvements or necessary clarifications for the CEC to consider for this draft solicitation concept document?

The proposed solicitation includes references to Resource Adequacy describing expectations and prohibitions on participation by DEBA resources. The language infers an RA commitment between the months of November and April during the DEBA contract is allowed, however it does not explicitly state this. For the sake of clarity we ask the CEC to affirmatively state their intention.

Conclusion

Convergent appreciates the opportunity to provide our thoughts and engage with the CEC and other stakeholders on the design and nuances of the DEBA program. We look forward to further engagement and the successful deployment of assets as a part of this shared initiative.

Respectfully,

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