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SCPPA Comments on DEBA March 2024 Draft Solicitation

Additional submitted attachment is included below.

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March 21, 2024 | Submitted electronically

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 Distributed Energy Resources for Reliability Draft Solicitation Concept (Draft Solicitation) and the March 5, 2024 staff workshop.[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 pivotal for mitigating increased electricity costs for California's residents and businesses.

To support publicly owned utility (POU) participation, it is critical for the DEBA Program to consider the unique needs of POUs—including those related to timeline, project sizing, and revenue. As such, SCPPA appreciates the opportunity to work with CEC staff on this program and, in response to CEC's questions presented in the Draft Solicitation, SCPPA provides the following:

Solicitation Requirements

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

   SCPPA considers large energy storage installations that are under the operational control of the distribution utility to be among the more valuable projects that DEBA could fund due to their long-term impact on local reliability, their potential to absorb local variable generation such as Title 24-driven rooftop solar, and their avoidance of transmission-related interconnection delays. SCPPA believes that the DEBA program creates an opportunity to contribute not only to near-term resilience against extreme weather

[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 #254712, https://efiling.energy.ca.gov/GetDocument.aspx?tn=254712&DocumentContentId=90336

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but also toward long-term reliability solutions through putting new steel into the ground and making investments that will last for decades. Therefore, SCPPA is prioritizing Group 1 projects and would encourage CEC to allocate a larger amount of funding and a larger number of awards to that category as well.

Additionally, an important consideration for the match requirement with regard to POUs is that the DEBA grant amount assumes that the project qualifies for Inflation Reduction Act (IRA) tax credits. The IRA 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. The U.S. Department of Treasury and the Internal Revenue Service released final regulations on the implementation of these direct payments on March 5, however, POU projects that may benefit from such payments are still in limbo due to uncertainty around Domestic Content requirements. Unlike privately developed projects which receive a bonus for using domestic content, public entities forfeit the entirety of their direct payments if they cannot meet these currently undetermined requirements.[3] Transitional guidance has only been provided for projects beginning construction in 2024[4], and as stated by the comments of the American Public Power Authority[5], this guidance is insufficient for POUs to move forward with a project. Therefore, SCPPA urges the CEC to consider the amount of a grant on a case-by-case basis with regard to whether the amount should be calculated net or gross of federal tax credits when the grant applicant is a tax-exempt entity.

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

SCPPA appreciates CEC staff's efforts to release the final solicitation and distribute awards quickly as possible. SCPPA encourages CEC to provide a minimum of 90 days from announcement to submission deadline for an application. As a joint powers authority, SCPPA provides its Members with a master services agreement with a consulting group that has established the administrative framework to expedite grant writing services agreements with SCPPA Members. However, a SCPPA Member that has not previously engaged in grant writing services through this agreement may take longer to go through the budget approval process to create a task order to fund the grant writing work.

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[3] "Phaseout for Elective Payment" 26 U.S. Code § 45Y(g)(12)
[4] Notice 2024-9, 2024-2 I.R.B. 358, https://www.irs.gov/pub/irs-drop/n-24-09.pdf
[5] Joint Applicable Entity Comments on Notice 2024-9 (February 26, 2024), https://www.regulations.gov/comment/IRS-2023-0062-0013

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As mentioned above, SCPPA considers large energy storage installations that are under the operational control of the distribution utility to be among the more valuable projects that DEBA could fund due to their contribution not only to near-term resilience against extreme weather but also toward long-term reliability solutions. However, the proposed construction timelines in the Draft Solicitation seem to disadvantage ambitious projects with significant need for construction, which envision that a multisite project that is notified of a proposed award in August will have 25% of its capacity installed and operational within 9 months. Supply chain constraints, inflation, and a tight market have slowed the development process throughout the energy sector and although DER projects will avoid the bottleneck of transmission interconnection, there is still potential for a variety of other delays. Therefore, SCPPA urges the CEC to establish reasonable timelines that are tailored more closely to the type of project and create flexibility for delays that are outside of the applicant's control. In particular, SCPPA suggests that multi-site Group 1 projects with fewer than 10 sites be considered single phase projects, and subject only to the final DEBA deadline for projects to be installed and operational.

Finally, SCPPA believes that May 1, 2027 presents a challenging deadline for a project that has not already been otherwise initiated. As the DEBA scoring criteria favors new incremental capacity that would not exist without the financial support from DEBA, SCPPA encourages CEC to provide flexibility for projects that require significant engineering, procurement, and construction that make good-faith efforts to meet the DEBA construction timeline. In the event of a deployment shortfall, CEC should delay the portion of funding that would compensate that period of performance until the deployment is completed. Penalties that decrement the amount of total award for delays that are outside of an applicant's control will add unnecessary risk to a project and increase costs to POU ratepayers.

<u>Project Requirements</u>

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

SCPPA acknowledges the importance of the CEC's load flexibility goals, and SCPPA Members have been actively piloting and implementing load flexibility programs within their service territories. However, our past experiences indicate that achieving 15 MW of either a virtual power plant or a load flexibility aggregation would be unrealistic for POU applicants without very large service territories. Further, the operational complications of deploying a single virtual power plant or load flexibility program over more than one POU service territory are significant, especially settlements and billing. These challenges further highlight SCPPA's view that Group 1 projects are the pathway by which SCPPA Members can provide the greatest benefit to grid reliability and SCPPA again urges the CEC to designate a larger share of DEBA funds toward Group 1 projects. At the least, CEC should consider adjusting the minimum project capacity requirements to be proportionally appropriate to the size of a POU applicant's service territory.

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Also, a single site, front of the meter system that goes through the CAISO interconnection process rather than the local utility's process, projects 5 MW or less are eligible for a Fast Track process.[6] Aligning the 6 MW minimum size requirement for Group 1 projects downward to this 5 MW limit may give certain projects more flexibility.

Thank you for the opportunity to provide comments on the DEBA Draft Solicitation. SCPPA looks forward to continuing to collaborate with CEC and other stakeholders as this critical reliability funding program is finalized.

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[6] ISO Interconnection application – study options, https://www.caiso.com/Documents/Presentation1-InterconnectionApplicationOptionsandProcess.pdf