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CALSSA DSGS DEBA funding comments

Additional submitted attachment is included below.

July 26, 2024

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

Re: Docket No. 22-RENEW-01—Comments on DSGS and DEBA funding

California Energy Commissioners and Staff:

The California Solar & Storage Association (CALSSA) is submitting these comments in response to this year's state budget legislation and proposals that touch on grid reliability programs run by the California Energy Commission (CEC). In recent months, culminating in the passage of AB 107 and SB 108, the Governor and Legislature have proposed and enacted changes to the funding for the CEC's Demand Side Grid Support (DSGS) and Distributed Electricity Backup Assets (DEBA) programs. These changes have stepped back on programs that aim to promote the use of distributed energy resources (DERs) as key elements of the transformation of California's electric grid. In particular, the reductions in funding for DSGS threaten its success at a time when it was poised to deliver substantial reliable capacity, including through a promising new program for behind-the-meter battery virtual power plants.

CALSSA is particularly concerned about the reductions in allocated funding for DSGS this year. We strongly urge the CEC to preserve funding for DSGS, so that this program can flourish and fulfill its potential as a valuable resource in California's energy system. We also support a dedicated source of funding for DEBA so that the pending grant-funding opportunity for distributed energy resources can be issued.

1. Background on DSGS Option 3 and funding reductions

DSGS was established in response to the Legislature's direction in AB 205 (2022),[1] to support the state's grid during extreme events and reduce the risk of blackouts. One program pathway within DSGS, Incentive Option 3, offers an innovative, market-aware approach to providing reliability service for California's grid, using wholesale energy market prices as a signal of grid stress and dispatching behind-the-meter batteries as coordinated fleets. This program was launched in the middle of the 2023 season, and 2024 will be its first full season of operation.

Adding to its importance as a near-term grid reliability resource, DSGS Option 3 has a key role to play in demonstrating the reliability value and contribution of BTM batteries. It was designed to overcome obstacles in existing programs based on the demand response construct, which have hampered batteries' participation and performance. It provides the opportunity to

[1] In 2022, AB 205 created the Strategic Reliability Reserve, which includes DSGS and DEBA, as well as the Department of Water Resources' Electricity Supply Strategic Reliability Reserve Program, which has $2.3 billion in funding. (AB 205, Sec. 13; Assembly Budget Committee, Floor Report of the 2024-25 Budget, June 22, 2024, p. 51.)

generate learnings that can inform the design of other grid service programs in California, to help in making proliferating battery storage capacity a useful resource at large scale.

CALSSA was an early proponent of DSGS Option 3, and its members currently represent more than 150 MW of enrolled capacity in the program.[2]

As this season launched, DSGS was well positioned for growth and success in participation, with total funding of about $300 million and a solid expectation that the program would run about five years. Between May and July, however, the Governor and Legislature reverted a large majority of DSGS funding—over $250 million—from the general fund, leaving about $50 million for this program, absent new funding.[3]

Administration and Legislature budget documents also proposed adding $150 million in funding for DSGS from the Greenhouse Gas Reduction Fund (GGRF) to replace the lost funding, $75 million in 2024-25 and $75 million in 2025-26. In the final version of the Budget Act of 2024 signed by the Governor on June 29, however, the 2024-25 installment of $75 million in funding for DSGS was instead designated to "be used to support incentives for demand side grid support or to support distributed electricity backup assets and utility scale assets including incentives for clean backup generation"[4]—in other words, this funding can be used for programs and incentives outside of DSGS, specifically for DEBA and for utility-scale resources.

While CALSSA and members were dismayed at the funding reductions in this year's budget, the expectation that $75 million would be added to DSGS provided a level of reassurance that the program could continue sustainably. We are submitting these comments to stress the importance of maintaining funding for DSGS and to avoid risking the program's success.

2. Funding certainty is key to DSGS's success.

The CEC should not divert the new GGRF funding from DSGS, and should instead maintain that funding in this program to avoid undermining its goals.

DSGS is already providing reliability services during stressed grid conditions and helping to avoid and address emergencies. In fact, Incentive Option 3 has been dispatched several times already this month, in response to the recent extreme heat event that has affected most of California and the region. For the program to continue providing these services, DSGS needs a level of stability in funding. It can't deliver on its potential of successfully piloting its innovative approach if it is hamstrung by inadequate funding or uncertainty of funding to support the program over a reasonable term.

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[2] Estimated enrolled (nominal) capacity from a recent internal survey of CALSSA members participating in DSGS Option 3 is over 175 MW.
[3] AB 107, Sec. 2.00, Item 3360-496, as amended by SB 108, Sec. 90, paragraphs (14) and (15).
[4] SB 108, Sec. 76, Provision 1.5.

Although it may appear unnecessary to maintain more funding in DSGS than is needed for the present year, it is in fact crucial for the program to have funding that will cover program incentive payments and other costs for more than one to two years.

Past experience has shown that multi-year certainty is a fundamental need for customer program success. Certainty that the program will not disappear is what drives robust participation. The certainty created by having funding available for a longer term will spur participation and investment in battery storage systems in the shorter term, and will allow for DSGS to deliver greater grid capacity this year and next. Without this certainty, DSGS will not garner nearly as much participation and will not approach its actual potential.

CALSSA members, which currently represent a large portion of the enrolled capacity in Option 3, are closely monitoring the funding available to the program, and are making decisions for future participation in response to their best understanding of how much program funding will be available for coming years. Just like utility-scale grid resources, DER programs require assurance that investments in assets and commitment to participate will provide a return on investment and not leave participants stranded.

Already, some CALSSA members have expressed a possible need to step back from DSGS participation. Members are concerned that the reduction in funding will limit their ability to ensure that a significant number of customers are motivated to participate. The budget uncertainty is making them hesitate to include DSGS when talking to potential new customers about the benefits of installing new storage systems or to propose it as a potential opportunity for existing customers. Members that were otherwise poised to suggest DSGS to their current and future customers are now thinking of holding back and advising that customers pursue other programs or forgo grid services participation entirely.

3. Funding for DEBA is needed, and should come from other sources.

DEBA was also substantially cut during this year's budget negotiations. Originally promised $700 million, it came into 2024 with $545 million in allocated funding, with $105 million already cut in 2023—including a $100 million diversion from DEBA to the Department of Water Resources to compensate for utility-scale purchases of imported energy.[5] In AB 105, passed in April 2024, $50 million was cut from DEBA's existing allocation. The Governor and Legislature cut an additional $343 million in the Budget Act of 2024, leaving only $152 million.[6] Over $120 million of the existing DEBA funding has been proposed to fund awards for a bulk-grid grant funding opportunity (GFO).

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[5] SB 101 (2023), Sec. 2.00, Items 3360-008-0001 and 3360-108-0001, appropriated $100 million for DEBA, providing that the Director of Finance could transfer those funds to DWR to reimburse utilities for above-market-value imported energy or imported capacity products, and enabled the Director of Finance to transfer unexpended funds back to DEBA.

[6] AB 107, Sec. 2.00, Item 3360-496, as amended by SB 108, Sec. 90, paragraphs (22) and (23).

New GGRF infusions totaling $380 million have been proposed for 2025-26 and 2026-27, but current funding is insufficient to support a second GFO, although the CEC has been working on for several months on a GFO that would have provided up to $250 million for DER projects. That GFO had substantial potential to result in new distribution-side reliability assets coming online in the next few years. A number of CALSSA members and other entities were poised to submit proposals that could meet our state's reliability needs in innovative and useful ways.

CALSSA is deeply disappointed by the reversion and the postponement of new DEBA funding. These budget changes have led to significant delays in DEBA-supported DER projects and diminished a program that holds great promise as a grid resource. DEBA needs new funding in the short term, to enable the CEC to issue the DER GFO before the 2025-26 budget is enacted. Funds already in the DEBA program may be sufficient to enable that GFO to be issued, including if any of the bulk-grid projects are delayed or do not proceed. If that funding is insufficient, other sources of funding for a DEBA DER GFO should be identified before next summer.

That said, DEBA should be funded through dedicated sources rather than drawing on DSGS funding by using the $75 million in GGRF funding provided to DSGS in this year's budget. That amount of funding would allow only a much smaller DEBA GFO that would not meet the promise of DEBA, and it would severely hamper DSGS, which is an existing, operational program that is already scalable and can offer value to customers and the grid now—as long as funding remains certain enough to provide needed assurance for participants.

Moreover, no more funding from DSGS or DEBA should go to utility-scale assets. As noted, DEBA has already announced over $120 million in proposed funding awards for utility projects. Also, the Department of Water Resources' Strategic Reliability Reserve has been allocated over $2 billion to support other bulk-grid projects.

4. Conclusion

CALSSA appreciates the efforts of the Governor's Office and Legislature to address a budget shortfall while balancing many funding needs for the state. In 2022, the state sent a strong signal that it supports distributed energy resources as important elements of a strong, reliable, and resilient electric grid. Programs like DSGS and DEBA need support over several budget cycles to allow them to succeed as envisioned.

DSGS's success depends not only on continued funding, but also on some certainty that funding will be available to support this program and compensate enrolled participants for more than one to two more years. We strongly urge the CEC to use the $75 million in funding allocated from the GGRF this year to keep DSGS well funded and provide that certainty.

Sincerely,

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