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CESA Comments on Proposed Modifications to DSGS Program Guidelines, Fourth Edition

Additional submitted attachment is included below.

CALIFORNIA ENERGY STORAGE ALLIANCE

January 28, 2025

Via electronic submission to:

California Energy Commission
715 P Street
Sacramento, CA 95814

RE: Docket No. 22-RENEW-01 – California Energy Storage Alliance Comments on Proposed Modifications to Demand Side Grid Support Program Guidelines, Fourth Edition

Dear California Energy Commissioners and Staff,

The California Energy Storage Alliance ("CESA") respectfully submits these comments on the proposed modifications to the Demand Side Grid Support ("DSGS") Program Guidelines, Fourth Edition, issued on January 14, 2025 ("the January Revisions").

I. INTRODUCTION

CESA appreciates the hard work of the California Energy Commission ("CEC" or "the Commission") in developing the DSGS program to utilize distributed energy resources ("DERs") as a reliability tool at scale. The growth of virtual power plants supported by DSGS is evidence of the program's success. CESA applauds the CEC's vision in creating DSGS and its ongoing responsiveness to stakeholder feedback.

Generally, CESA supports or does not oppose the modifications in the January Revisions but offers the following recommendations for DSGS Option 3:

- The plan to introduce baselines starting in 2026 should be removed;
- Unnecessary program design complexity and cost should be avoided by making modest modifications to the monthly reporting and test event requirements; and
- Behind-the-meter ("BTM") thermal energy storage resources should be eligible to participate.

II. BASELINES SHOULD NOT BE INTRODUCED TO DSGS.

Currently, under Option 3, stationary batteries that do not receive funding from the Self-Generation Incentive Program ("SGIP") and received permission to operate ("PTO") after July 1, 2023 are not subject to a prescriptive baseline. CESA appreciates that the January Revisions preserve the status quo for 2025 but is very concerned about the CEC's plan to apply baselines to

all Option 3 resources beginning in 2026.[1] Introducing baselines to DSGS will deter customer participation, will not avoid incurring reliability costs, and will create program instability. CESA recommends the Commission to remove the language in the January Revisions that would introduce baselines to Option 3 at any point.

a. Baselines Will Deter Customer Participation in DSGS.

A baseline serves as a haircut, a reduction in the economic incentive for a customer to participate in the program. The DSGS incentive is appropriately scaled to provide a price signal for virtual power plant customers to contribute to grid reliability, but it is not overly rich. Limiting the incentive available to any given customer will reduce the pool of customers who would benefit from participating, unnecessarily limiting the amount of BTM storage capacity available to support the grid during reliability events. The purpose of DSGS is to give the state another tool to manage extreme reliability conditions. It is appropriate to ensure that payments are right-sized, but not to arbitrarily derate how much of a customer's battery capacity can count towards the reliability value they are providing.

b. Limiting Customer Payments Does Not Avoid Those Reliability Costs.

Reliability capacity must come from somewhere. The alternative to compensating virtual power plants through mechanisms like DSGS is buying Resource Adequacy ("RA"). The California Public Utilities Commission ("CPUC") noted in its most recent RA report that RA prices continue to increase significantly, especially during the summer months.[2] For example, the weighted average price for September 2022 System RA was $14.67/kW-month and the 85th percentile price was $30.00/kW-month.[3] Additionally, the California Independent System Operator ("CAISO") is still routinely signing Reliability Must Run ("RMR") contracts to ensure that grid reliability needs are met.[4] RMR contracts command significant above-market prices.[5] Trimming customer incentives under DSGS by instituting baselines may appear fiscally prudent but to the extent it deters participation it may increase reliability costs incurred elsewhere.

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[1] January Revisions, Chapter 5, Section E.
[2] CPUC 2022 Resource Adequacy Report, p. 4, available at: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/2022-ra-report_05022024.pdf.
[3] *Id.*, p. 29.
[4] *Id.*, p. 34.
[5] For example, in 2018, the FERC-approved contract for the RMR-designated Metcalf gas plant was for $5.97/kW-month. *See* Metcalf Energy Center, LLC, 162 FERC ¶ 63,028, ¶ 10 (Mar. 27, 2018) ($43,000,000/(600 MW * 1,000)/12 months = $5.97/kW-month)), available for download at: https://elibrary.ferc.gov/eLibrary/filelist?accession_number=20180327-3043. At that time, 85% of capacity in Metcalf's Local Capacity Area (Greater Bay Area) was priced at or below $3.00/kW-month – nearly half the cost of the Metcalf RMR contract. *See* CPUC RA Workshop (February 22, 2018), p. 47, available at: https://www.cpuc.ca.gov/-/media/cpuc-website/files/legacyfiles/c/6442456634-current-trends-ra-ed-staff-working-draft-proposal.pdf.

c. Annual Revisions to Core Program Features Undermines its Success.

Programs need stability to succeed. With every significant program design change, such as this one, aggregators need to retool their customer education materials, introducing costs and uncertainty. In short, it is difficult for market participants to relearn the program framework and reeducate their customers when basic elements are subject to yearly revisions. CESA advises against introducing baselines to this program.

III. UNNECESSARY PROGRAM COMPLEXITY AND COST SHOULD BE AVOIDED.

One reason for the success of DSGS is its simplicity. The program design generally has minimal friction for customers and for aggregators. CESA does not oppose the January Revisions' modifications to Option 3 with regard to minimum aggregations[6] or the energy emergency alert ("EEA") event triggers[7] but worries about the trend towards complexity. In general, the Commission should continue to avoid unnecessary barriers and requirements.

CESA does urge the Commission to modify two elements of the January Revisions that unnecessarily drive up the cost of participation in Option 3. First, aggregators should have 30 calendar days instead of the proposed 10 business days to submit their monthly performance reports. Second, aggregators should be allowed to conduct up to three test events per month and submit one to the Commission, rather than be restricted to just one test event.

a. Aggregators Should Have 30 Days to Provide Monthly Performance Reports.

The January Revisions introduce a new requirement that aggregators must provide monthly performance reports.[8] CESA does not object to monthly reporting but encourages the Commission to modify the 10-business day reporting period to 30 days. Requiring aggregators to provide reports within 10 business days following the delivery month is unnecessarily burdensome. The industry standard is 30 days. CESA recommends that the January Revisions be modified to allow aggregators 30 days to provide their monthly performance reports instead of 10 business days. This small modification that will alleviate the proposed new operational burden on participating aggregators.

[6] January Revisions, Chapter 5, Section A.
[7] *Id.*, Chapter 5, Section D.
[8] *Id.*, Chapter 2, Section D.

b. Test Event Requirement Should Have Slightly More Flexibility.

The January Revisions require aggregators to register one test event each month with the Commission, and they permit no more than one test event each month.[9] CESA understands that the Commission seeks assurance that virtual power plant fleets are capable of responding during reliability events. However, there is a balance to be achieved between ensuring that reliability resources can perform and creating new layers of complexity and cost. Instead, CESA proposes that aggregators be allowed to conduct up to three test events per month and submit one to the Commission.

IV. THERMAL ENERGY STORAGE SHOULD BE ELIGIBLE FOR OPTION 3.

CESA recommends modifying the January Revisions to make BTM thermal energy storage systems eligible for Option 3. Though it cannot export, TES can – like BTM battery storage and battery electric vehicles, which *are* eligible[10] – enable customer load shifting and reduction in net energy load during extreme events, consistent with the program goals. CESA joins the California Efficiency + Demand Management Council ("CEDMC")[11] in calling for the inclusion of TES as an Option 3-eligible technology.

V. CONCLUSION

CESA thanks the Commission for the opportunity to provide comments and looks forward to another successful DSGS program year.

Respectfully submitted,

/s/ Scott Murtishaw

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[9] *Id.*, Chapter 5, Section D.
[10] *Id*, Chapter 5, Section A.
[11] CEDMC Comments on Proposed Fourth Edition DSGS Program Guidelines (October 30, 2024), p. 5.