

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Create a
Consistent Regulatory Framework for the
Guidance, Planning and Evaluation of Integrated
Distributed Energy Resources.

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Rulemaking 14-10-003
(Filed October 2, 2014)

**REPLY COMMENTS ON COMPETITIVE SOLICITATION
FRAMEWORK WORKING GROUP FINAL REPORT
OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E)**

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online by a milestone date, that achievement should be sufficient for performance tracking, and that the individual technologies delivering a service do not matter. What Solar City's analysis fails to address is two-fold: 1) a simple megawatt ("MW") value delivered does not provide a means to measure the developer's ability to fulfill the rest of their obligation; and, 2) the original bid may have included qualitative or other services that are not being delivered by a change in resource or technology type.

If the developer reports to the utility the installation of a certain quantity of capacity, the question becomes how was that quantity measured? Each technology has a different impact on the circuit loading. Without knowing what is behind the reported numbers, the utility has no method for determining accuracy and adequacy. For example, the developer may have installed a one MW nameplate solar photovoltaic system to meet a need, but if the need occurs in late afternoon (when solar output is low), how is that number reported to the utility? Reporting the nameplate value would be misleading, but if the utility has no visibility to the technologies installed, there would be no way to discern this discrepancy.

To illustrate SDG&E's concern another way, suppose the utility accepts a bid based on a capacity service as well as additional qualitative values (*e.g.*, smart inverters or dispatchability), but the developer delivers the capacity with technologies that do not include those qualitative values (*e.g.*, they do not include smart inverters or are not dispatchable resources). In that case, the full complement of attributes selected in the bid would not be delivered, resulting in default. Without the developer reporting out on the technologies installed, the utility cannot make a determination as to the attributes received.

SDG&E supports the idea of neutrality toward DER technologies, but a means to track the services and attributes delivered needs to be developed before the utilities can rely on a

simple capacity delivered metric to ensure performance.

Thus, demonstration of progress toward providing the full set of services included in the offer is a prudent contracting measure to allow time for a more traditional solution to be put in place, if necessary, in order to assure reliability. SDG&E is not proposing to base performance on a rigid counting exercise, such as comparing how many panels are installed versus how many were proposed. But the flexibility afforded to developers to make project changes should not extend so far as to deprive the utility and its customers of the full value proposition on which the developer was selected in the first place. Along with prudent progress measures included in the contract, SDG&E is also supportive of a reasonable opportunity for the solution provider to cure deficiencies, as long as reliability is not thrown into question and sufficient room on the timeline is allowed to put in place other solutions, as necessary, to assure reliability.

II. SERVICES

In its comments, Solar City posits that Conservation Voltage Reduction (“CVR”) and reactive power support should be considered tangible services, rather than services for future consideration. While SDG&E appreciates the need for CVR and reactive power support in system operations, SDG&E believes that these are not services that the utilities will procure. SDG&E and the other IOUs have a mandate to maintain service voltages within a defined standard, such as ANSI Range A, and as long as service voltages remain within this band, there is no further service required.

SDG&E agrees with Solar City that smart inverters can play a significant role in voltage management, and intends to enable the volt-VAr function on smart inverters as they are deployed throughout SDG&E’s distribution system. SDG&E expects that this function will help alleviate voltage fluctuations caused by high DER penetration, and allow for a flatter voltage curve

throughout the day. It should be noted, however, that this is a required function of smart inverters, and not something that should be separately valued and compensated. As long as smart inverters are operating within their Rule 21 prescribed bands, there is not extra “value” to be recognized. This is no different than large wholesale generators, who are required to maintain voltage at their respective interconnection busses.

SDG&E is also concerned that to identify a CVR or reactive support service is to open the door for DER to be compensated for curing problems caused by DER. SDG&E believes that DER should be operated in such a manner that they do not cause problems on the distribution system. Today, in most cases, the installation of DER on the distribution system is resulting in an increase in voltage across circuits and substations, causing utilities to modify voltage regulation schemes to compensate. If CVR were determined to be a service, a DER could be installed on a portion of a distribution circuit that causes the voltage to increase substantially, and then a “CVR service” could be offered to drive the voltage down, resulting in a DER getting compensated to fix its own problem. This type of gaming should be discouraged from the beginning by correctly identifying services needed by ratepayers.

III. OVERSIGHT

Vote Solar and Solar City posit that market participants should have a role in the proposed Distribution Planning Advisory Group (“DPAG”), on the ground that market participants could inform the DPAG as to available solutions to meet grid needs. Just as potential bidders do not participate in the development of traditional competitive solicitations, SDG&E believes they should not be given any greater role in the development of solicitations for DER. Any market participant that is allowed to participate in the needs determination and Request For Proposals (“RFP”) formation may influence the process such that they have an

advantage in the subsequent solicitation. As stated by Vote Solar: "...we believe market participants can bring insights and innovation to the development and evaluation of optimal DER portfolios, as well as non-wires alternatives for grid investment deferrals and grid modernization valuation." Such "insights and innovation" have the potential to steer the competitive process toward a solution that is the specialty of the DER provider providing the "insight." This situation should be avoided so that the solicitation process can remain neutral and transparent for all DER providers and technologies.

In addition to influencing the solicitation process, market participants that participate in the DPAG will have advanced knowledge of the distribution need and area, allowing them to get a competitive advantage over any provider who does not participate in the DPAG. For these reasons, SDG&E firmly believes that participation in the DPAG should be limited to parties who do not have a stake in the outcome of the solicitation, other than the safety and reliability of the distribution system.

SDG&E believes aspects of Southern California Edison Company's ("SCE") proposed Distribution Procurement Framework have merit, especially when an expedited procurement process is deemed warranted, as it allows a utility to attempt to procure DER's in a shorter timeframe than a standard solicitation process entails. However, SDG&E believes that the most appropriate way to implement the competitive solicitation framework reflected in the CSFWG's Final Report is to utilize the process in conjunction with the annual Distribution Planning process with cost recovery through the General Rate Case applications. SCE's proposal was minimally discussed by the working group members and included in the Final Report, and while SDG&E looks forward to participating in discussions on the merits of this proposal, SDG&E believes those discussions should be via proactive dialogues and not via static reply comments.

When a need with a longer lead time is identified, the solicitation process would be the preferred mechanism while shorter term needs could be procured via an expedited review framework developed from a stakeholder vetting process.

IV. INCREMENTALITY

Several parties, including SolarCity, Sierra Club and the Natural Resources Defense Council (“NRDC”), question the value of placing so much emphasis on incrementality. SDG&E reaffirms its belief that the issue of incrementality, though complex, is of vital importance to ensuring that utilities can continue to provide safe and reliable services. Specifically, if a utility procures a DER that provides non-incremental services under the erroneous assumption that those services are incremental, *i.e.*, in addition to what is included in the planning assumptions, that can jeopardize the safe and reliable operation of the distribution grid.

While SDG&E agrees with the Coalition of California Utility Employees (“CUE”) on the importance of incrementality, SDG&E disagrees with the cumbersome verification process through the Commission which CUE recommends. SDG&E believes that incrementality should be determined through a reliable circuit-level DER forecast and a subsequent analysis (*e.g.*, Potential Frameworks 4 or 5 from the Final Report), but that a certain degree of flexibility should be built in to the process to allow for a period of learning, particularly prior to the DER forecast being developed. CUE’s verification process does not provide for this needed flexibility.

SDG&E agrees with Sierra Club and NRDC (at 1-2) that “Potential Framework 4 and Potential Framework 5...offer a practical means of moving forward with new distribution-level competitive solicitations.” SDG&E also agrees that these frameworks “could still benefit from some additional refinement and stakeholder discussion.” *Id.* at 2. However, unlike Sierra Club, NRDC and the California Energy Efficiency Industry Council, SDG&E firmly believes that any

approach adopted must be tied to a reliable distribution circuit-level DER forecast, which is foundational to identifying services needed to maintain a safe and reliable distribution grid. For this reason, SDG&E disagrees with Sierra Club and NRDC's proposed Framework 6, which does not use planning assumptions as a foundation. Notwithstanding this disagreement, SDG&E acknowledges that current system-wide forecasts may not achieve the granularity that is needed to provide a reliable baseline for determining incrementality. SDG&E recommends that this discussion continue in Track 3 of the DRP proceeding, where DER growth scenarios are planned for development.

V. CONCLUSION

SDG&E appreciates the opportunity to submit the foregoing reply comments.

Respectfully submitted,

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