BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources.	Rulemaking 14-10-003 (Filed October 2, 2014)

COMMENTS OF CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON THE NOVEMBER 13, 2018 SAN DIEGO GAS & ELECTRIC INTEGRATED DISTRIBUTED ENERGY RESOURCES PILOT EVALUATION REPORT

November 19, 2018

MELANIE GILLETTE
California Efficiency + Demand Management Council
1535 Farmers Lane, Suite 312
Santa Rosa, CA 94505
Telephone: (916) 671-2456
E-mail: policy@cedmc.org

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources.	Rulemaking 14-10-003 (Filed October 2, 2014)

COMMENTS OF CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON THE NOVEMBER 13, 2018 SAN DIEGO GAS & ELECTRIC INTEGRATED DISTRIBUTED ENERGY RESOURCES PILOT EVALUATION REPORT

Pursuant to Administrative Law Judge (ALJ) Hymes' email ruling on November 13, 2018 *Permitting Comments to the November 13, 2018 San Diego Gas & Electric Company Report* ("November 13 ALJ Ruling"), the California Energy Efficiency + Demand Management Council (the "Council") respectfully submits comments on the "Evaluation Report for San Diego Gas & Electric's 2018 Piloted Streamlined Competitive Solicitation Framework and Piloted Incentive Mechanism within the Integration of Distributed Energy Resources Proceeding [R.14-10-003]" ("Report"). These comments are in the form of general comments and responses to selected questions posed by the California Public Utilities Commission ("CPUC" or "Commission") in Decision 16-12-036[1]. These comments are timely filed and served pursuant to the Commission's Rules of Practice and Procedure and the instructions accompanying the November 13 ALJ Ruling.

[1] D.16-12-036: Decision Addressing Competitive Solicitation Framework and Utility Regulatory Incentive Pilot. December 22, 2016. Pages 84-85

I.
THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL

The Council[2] is a statewide trade association of non-utility companies that provide efficiency, demand response and data analytics products and services in California. The Council's member businesses employ many thousands of Californians throughout the state. These businesses represent implementation and evaluation experts, energy data analytics providers, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of energy efficiency and demand response products and services. The mission of the Council is to support appropriate energy efficiency and demand response policies, technologies and programs for all Californians to create sustainable jobs, long-term economic vitality, stable and reasonably priced energy systems, and environmental improvement.

As the actual providers of energy efficiency and demand response products and services and generators of green jobs, the Council members' knowledge and expertise with respect to the issues surrounding effective implementation of energy efficiency and demand response, as well as the challenges faced by ratepayers and customers, can assist the state in reaching its energy goals.

II.
INTRODUCTION

Decision ("D") 16-12-036 adopted the consensus recommendations from the Competitive Solicitation Framework Working Group's August 1, 2016 Report and approved an Incentive Pilot with the goal of motivating Pacific Gas & Electric Company ("PG&E"), San Diego Gas &

[2] More information about the Council, including the organization's current membership, Board of Directors and antitrust guidelines for its members, can be found at http://www.cedmc.org/. The views expressed by the Council are not necessarily those of its individual members.

Electric Company ("SDG&E") and Southern California Edison Company ("SCE") (collectively, the "IOUs") to procure distributed energy resources ("DERs") and to test the Framework developed by the working group. To implement the Incentive Pilot, each utility was asked to identify one project where the deployment of DERs on the system would displace or defer the need for capital expenditures on traditional distribution infrastructure. To test the incentive mechanism, the IOUs were encouraged (but not required) to select up to three additional projects. D.16-12-036 required the IOUs to establish and consult with a Distribution Planning Advisory Group ("DPAG") for the purposes of the Pilot.

D.16-12-036 also defined seven steps for the implementation of the Incentive Pilot: 1) Formation of the Advisory Group, 2) Identification of Projects, 3) Advice Letter Process, 4) Solicitation Approval Process, 5) Solicitation Process, 6) Contract Approval Process, and 7) Pilot Reporting Process. Step 7 requires the utilities to provide a two-part report with the first part focused on the performance of the Solicitation Process to be delivered at the end of the Solicitation Process and the second part focused on the performance of the implemented DERs. D.16-12-036 requires the IOUs to prepare the first part of the report with input from the DPAG and specifies that the report shall thoroughly respond to six specific questions and provide associated data:

1. Was the solicitation successful in procuring distributed energy resources to meet the identified need?
2. How did the earnings opportunity provided in this pilot affect utility sourcing of distributed energy resources to defer or displace distribution infrastructure? Explain the screening process used for determining whether to perform zero, one, or two projects for the optional projects.

   For the project required to mirror Demonstration —C in Rulemaking 14-08-013 (if applicable), was there any measurable difference relative to utility sourcing for Demonstration —C?
3. Describe the impact on the Incentive Pilot of the Distribution Planning Advisory Group review of utility project identification?

4. Did the competitive solicitation framework process perform effectively?
5. What changes to the Incentive Pilot would have made it more effective?
6. How would different incentive structures allocate the costs and benefits of the projects differently than the incentive employed in the Incentive Pilot? Include a financial analysis of the impacts on the utilities, customers, and vendors from the three incentive mechanisms using data from the projects completed: i) the percent of investment incentive as proposed, ii) the percent of investment incentive applied to the counterfactual conventional investment, and iii) shared savings.

The Commission will analyze each report with input from parties to determine whether the Incentive Pilot met its purpose, whether changes are required, and whether to adopt the Framework and the incentive.

SDG&E is the first IOU to provide Part 1 of the report focused on the evaluation of their integrated distributed energy resources (IDER) Pilot. SDG&E distributed a draft report to stakeholders on November 8, conducted a stakeholder review meeting that same day, and requested comments from stakeholders by 10 am on November 13. The Council submitted general comments on the Draft Report to meet the deadline and appreciates the opportunity provided by ALJ Hymes' email Ruling to provide more detailed comments on the Final Report.

III.
GENERAL COMMENTS ON SDG&E'S REPORT

The Council finds that SDG&E's Report does not provide enough information to determine whether the Pilot met its purpose, whether changes are required, or whether to recommend adopting the Framework and the incentive.

Although SDG&E provides responses to the questions posed in D.16-12-036, the Council finds that these responses are developed using a very narrow perspective that constrains the evaluation, limiting what can be learned from the Pilot and what can be done to improve the results of future solicitations. SDG&E chose to focus its evaluation of the IDER Pilot on an evaluation of how adequately SDG&E was able to follow the administrative steps of the solicitation framework and process. There is no attempt in the Report to evaluate how successful the solicitation process and all its components were in achieving the *purpose* of the Pilot, which was to drive procurement of DERs. It is fundamentally important to understand why no DERs were procured as part of SDG&E's Pilot and what can be changed in future solicitations to increase the likelihood of procuring DERs.

In addition, the Council finds that the answers provided by SDG&E in the Report do not reflect a thorough analysis of the issues that relate to each question. The responses are general in nature and SDG&E does not provide any supporting arguments or data to back up positions, statements, or recommendations indicated in the answers. Detailed explanations on the rationale behind the comments and recommendations presented are needed to understand how SDG&E evaluated the different components of the Pilot.

The Council also finds that the Report does not refer to the feedback on SDG&E's approach to the Pilot, which was provided by stakeholders in DPAG meetings. No information is included on the issues that were discussed in the DPAG meetings, the feedback provided by the stakeholders, or whether and how SDG&E took the feedback into account when developing the solicitation requirements. The Council asserts that this information is very important to inform the evaluation of the solicitation and to identify potential changes in the design of the solicitation requirements that could result in solicitations that successfully procure DERs.

Based on this Report, the Council is concerned that the IOUs may not be able to evaluate their own Pilots in a thorough and balanced fashion. The Council suggests that the Commission require that third parties evaluate the remaining Pilots, and consider requiring an additional third-party evaluation of SDG&E's Pilot to inform future efforts. Alternatively, Energy Division Staff could undertake the evaluations. In any case, the Council believes that SDG&E should provide additional information that thoroughly answers each of the questions posed in the Decision.

During the Stakeholder meeting on November 8, SDG&E indicated that they could not address why they were not able to procure any DERs as part of the Solicitation Process because the necessary information would be confidential. The Council suggests that SDG&E provide any confidential information, including supporting data, to the Commission in a confidential report, and provide a redacted version of the revised report to stakeholders. The Commission can make the report available to stakeholders that are not market participants. It is essential that market participants understand the main reasons why no DERs were procured and what SDG&E is planning to do differently in future solicitations to increase the likelihood of receiving successful bids. The Council strongly believes that it is essential that these Pilots are evaluated thoroughly to understand what works well and what needs to be changed in future solicitations to provide real opportunities for the implementation of DERs to meet distribution needs.

IV.
COMMENTS ON SELECTED QUESTIONS AND PARTS OF THE REPORT

Q1. ***Was the solicitation successful in procuring distributed energy resources to meet the identified need?***

As mentioned above, SDG&E answered the questions from a very narrow perspective that constrains the evaluation of their Pilot. The narrowness of the perspective can be seen in the answer to the very first question. This is a very straightforward question with a very straightforward answer in the case of SDG&E's Pilot: "*No, the solicitation was not successful in procuring distributed energy resources to meet the identified need*." SDG&E did not select any of the offers they received and therefore no DERs were procured. That is not a bad outcome of the Pilot as long as parties understand why that occurred and what can be changed for future solicitations. However, SDG&E answers in the affirmative, defining "successful" relative to Step

5 (Solicitation Process) of the solicitation Framework. According to SDG&E, the streamlined solicitation process operated as intended and therefore the answer to the question is that the solicitation was successful.

The Council finds this response unhelpful, at best. Failing to assess the Pilot's lack of success in procuring DERs results in an incomplete evaluation and misses the opportunity to learn from the Pilot to enhance future solicitations. One of the main components of the solicitation, probably the most important from the point of view of potential bidders, is the design of the solicitation package as reflected in the Request for Offers ("RFO"). There is no evaluation in SDG&E's report of the RFO or its requirements.

Since there were no winning bids, the Council suggests that there should be additional analysis and evaluation of the RFO requirements to determine how they may have limited market participation. Several DER providers indicated that they decided not to participate in the solicitation because they felt there was unacceptable contract risk. The Council suggests that particular attention be given to the evaluation of key solicitation requirements, such as those described below.

Distribution need

During the DPAG meetings, SDG&E described the project as a distribution capacity project. The proposed RFO submitted to the Commission as part of SDG&E's Advice Letter also described the pilot as a distribution capacity project but included a new requirement that the maximum MWs of capacity for each year be available at any time during the year for two hours to support both planned and unplanned maintenance/emergencies. This requirement expanded the distribution service beyond distribution capacity to include back-tie capacity. Although protests from stakeholders resulted in the Commission ordering SDG&E to remove the new requirement, the fact that is was included half-way through the solicitation process without consultation with the DPAG created unease in the market and limited participation.

In Attachment C of their report, SDG&E interprets the Commission's direction that the RFO process must be technology neutral to mean that any technology offered, including the "wires" solution, must provide comparable service and value. Since, "wires" solutions typically provide back-tie services in addition to capacity services year-round, according to SDG&E's interpretation, all DER solutions must do the same. The Council finds that this approach conflates distribution needs with "wires" solutions requirements, and thereby omits consideration of valuable DER benefits.

The Council suggests that SDG&E conduct more analysis, based on historical needs for back-tie services at the locations where distribution capacity is needed, to better quantify the need and value of those services at those locations and to determine if potential DER solutions must provide those services. The Council believes that requiring immediate dispatch of two-hour duration at any time of the year creates disproportionate financial and contract risk for DER providers, increasing the potential for Default for not being able to meet this requirement, and would result in oversizing of the DER solutions making them uneconomic compared to the "wires" solutions. This in turn would limit the market as many providers find that the risk is too high and make the decision not to submit offers.

Incrementality

The issue of determining whether a proposed DER solution is incremental or not was discussed extensively during the DPAG meetings and was the focus of many comments from stakeholders to the Advice Letter submitted by SDG&E to request approval to start the solicitation process. This issue has also been discussed extensively as part of the Technology

Neutral Pro Forma ("TNPF") contract working group meetings and has real implications for the implementation of DERs to meet distribution needs. The Council considers that SDG&E chose an overly strict interpretation of incrementality for their RFO. Further, SDG&E did not provide detailed information on the amount and type of DERs included in the load forecast for the two circuits for the months and hours when the DER solution is needed to provide distribution capacity services. Without this information it was very difficult for potential bidders to determine if their potential DER solution would be considered incremental.

Since the Commission affirmed in Resolution E-4889 that bidders must be convincing in presenting a plan that will result in incremental savings relative to existing programs, and must include a robust methodology to verify claimable (incremental) savings and avoid any possible double-counting of savings, it falls on the bidders to provide evidence that their offered DER solutions are incremental. The Council finds that this is a very onerous requirement for potential bidders and considers that IOUs are in a better position to determine if an offered DER solution is incremental.

The IOUs have access to all the data and analysis related to their distribution needs forecast for specific locations and the expected baseline load forecast for DERs in those locations. In addition, they have control over the programs that they or third parties implement in their service territories. The IOUs could define the DERs requested for distribution needs as being part of the baseline forecast and guide their programs to exclude those locations where DERs are being procured to meet distribution needs or require them to coordinate with the DER providers being secured for distribution needs. In this way, all (or most) DER solutions offered to meet distribution needs would be incremental.

The current situation requires bidders to prove that their proposed solutions are incremental. When combined with very strict interpretations of incrementality, such as SDG&E's, and not enough detailed data on expected DER penetration in the load forecast provided to bidders, the result is reluctance on the part of DER providers to undertake the effort and considerable expense required to prepare and submit bids that are later determined by the utility to be non-incremental. The perceived risk of not being able to prove to SDG&E's satisfaction that their offer is incremental is too high for some potential bidders.

Requirement for a single counterparty

SDG&E specified in their RFO that if more than one resource or resource type was needed to meet the minimum capacity requirements, those resources needed to be integrated so that SDG&E could sign one contract with one counterparty with cross defaults for failing to meet aggregate performance. Although this approach allows for integrated solutions and permits partnering among DER providers, it can also limit the market as some DER providers that could act as the counterparty might be unable to finance projects due to the high level of responsibility and associated risk, or reasonably reluctant to take on that risk. In addition, it reduces the opportunity of receiving offers based on new technologies that may not be able to meet the whole distribution need on their own and whose providers find no ways to partner with other providers. Flexibility in having more than one contract would allow DER providers who want to partner and sign one contract to do so and permit other providers to sign and take responsibility for their own partial DER solution.

Events of Default

The Solicitation Term Sheet included in the RFO package contains very strict events of default conditions. A DER provider would be considered to be in default for failure to meet a critical milestone, failure to meet the initial delivery date, failure to meet the minimum availability, failure to provide more than 99% of the contract capacity during performance testing, and failure to meet reliability requirements. The Council finds these requirements too strict. The lack of flexibility in being able to extend the initial delivery date within a reasonable period by paying delay damages to SDG&E or to be able to miss one or two milestones as long as the provider is able to catch up in subsequent milestones imposes an unacceptably high level of risk on potential DER providers and discourages them from participating in the solicitation. The Council suggests that SDG&E considers ways to provide flexibility to DER providers without jeopardizing the safety and reliability of the distribution system.

Cost-effectiveness

SDG&E indicates in their Report that none of the offers they received were cost-effective. It would have been useful for the Report to include an indication of how far / close the offers were from being cost-effective and, if possible, include general suggestions on what could help make future offers cost-effective. Otherwise, the situation may repeat itself in the future.

The Council argues that one way to avoid this situation and increase the likelihood of receiving cost-effective offers would be for the Commission or the utilities to make public the cost-effectiveness cap that the utilities need to provide to the Commission in their Advice Letter requesting approval to procure a DER solution for their selected projects. This would allow DER providers to determine if they can provide DER solutions that would be cost-effective and not waste effort and expense in preparing and submitting bids that have no chance of being successful. The IOUs have argued that making the cost-effectiveness cap public would reduce competition and result in all offers being just below the cap. They argue this would have a negative effect on ratepayers who would have to pay for more expensive solutions than they would otherwise. The Council does not see merit in this argument. DER providers that know they can provide cost-effective offers also know they will need to compete with other DER providers to be selected and will provide the most cost-effective offer they can. This has been the case in many other situations where providers of services are given an indication of the budget available on the part of the buyer. In any event, it would be better for ratepayers to pay for DER solutions that cost "slightly" less than the "wires" solutions than to have to pay for the "wires" solutions because there were no cost-effective DER offers.

Q2. ***How did the earnings opportunity provided in this pilot affect utility sourcing of distributed energy resources to defer or displace distribution infrastructure? Explain the screening process used for determining whether to perform zero, one, or two projects for the optional projects.***

Given the fact that SDG&E did not select any of the offers they received, and in light of the lack of information on why this happened, it is very difficult to know if the incentive had any effect on the decision to source or not source a DER. At first view, one could say that it had no effect given that no DERs were procured. SDG&E states that they believe that the 4 percent incentive mechanism was incorrectly developed. However, no evidence is given to support that statement. Additional detail is needed to understand SDG&E's position.

It is not clear to the Council what the impact of an incentive would be on the decision to procure DERs. IOUs may view the incentive as temporary with no guarantee of a permanent structural mechanism to earn a return for shareholders. This temporary incentive may not be enough to give credibility to a service model that is fraught with risk and currently doesn't have a pathway to profitability for shareholders. The Council considers that further analysis is needed to understand the effect of the incentive. Our hope is that some of this analysis will be done as part of the Pilot evaluation report that will be submitted by SCE within the next couple of months.

Q3. ***Describe the impact on the Incentive Pilot of the Distribution Planning Advisory Group review of utility project identification?***

SDG&E states that the DPAG was effective in helping SDG&E conduct a successful streamlined pilot solicitation. However, SDG&E does not provide information on how the DPAG was effective. More importantly, it does not provide information on the issues raised in the various DPAG meetings regarding SDG&E's approach to the Pilot that were not addressed by SDG&E and that could have made the solicitation successful. Many of the issues described in the Council's comments to the first question above were brought up during the DPAG meetings, and concerns and recommendations were provided to SDG&E. The Council suggests that it is very important to review these concerns and recommendations to inform the evaluation of the solicitation and to identify potential changes in the design of the solicitation requirements that could increase the likelihood of procuring DERs.

Q4. ***Did the competitive solicitation framework process perform effectively?***

SDG&E considers that the solicitation framework operated as intended. The Council agrees that the solicitation process generally followed its intended course, although it did not "perform effectively" as it did not result in any actual acquisition of DERs. However, the Council finds that SDG&E did not follow all the steps of the process as defined in the framework. SDG&E introduced new dispatch requirements in the RFO they submitted to the Commission without consulting with the DPAG, which was a requirement of the Solicitation Process. Introducing changes half-way through the process created confusion in the market and limited participation. Some potential DER providers felt that there was no certainty that the rules of the game would be maintained throughout the contract term and found the resulting risk too high for them to develop and submit offers. SDG&E also considers that the solicitation process operated in a streamlined manner. Perhaps this was the case from their perspective but not from the perspective of many potential bidders. The solicitation was seen as onerous and found to lack clarity on what was expected of bidders if they were to prevail.

V.
CONCLUSION

The Council appreciates the opportunity to provide additional comments on SDG&E's IDER Pilot evaluation report. In reviewing the report, the Council finds that SDG&E did not respond thoroughly to the evaluation questions posed in the Decision, and the Report does not provide the information needed to properly evaluate SDG&E's Pilot. The Council asks that SDG&E provide revised responses, and that the Commission consider requiring third-party evaluation of the remaining Incentive Pilots, as well as, if the revised responses from SDG&E are inadequate, for this Pilot.

Respectfully submitted,

November 19, 2018

/s/ MELANIE GILLETTE

Melanie Gillette
California Efficiency + Demand Management Council
1535 Farmers Lane, Suite 312
Santa Rosa, CA 94505
Telephone: (916) 671-2456-
E-mail: policy@cedmc.org