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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Microgrids Pursuant to Senate Bill 1339 and Resiliency Strategies.	Rulemaking 19-09-009 (Filed September 12, 2019)

RESPONSE OF BLOOM ENERGY CORPORATION TO SAN DIEGO GAS & ELECTRIC COMPANY'S APPLICATION FOR REHEARING OF DECISION 21-07-011

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In accordance with Rule 16.1(d) of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure, Bloom Energy Corporation ("Bloom") submits this response to San Diego Gas & Electric Company's ("SDG&E") Application for Rehearing of Decision 21-07-011(the "AFR").

I. INTRODUCTION

SDG&E's assertions do not demonstrate that the Commission has committed legal error and do not necessitate correction by the Commission. SDG&E's AFR asserts, but fails to adequately substantiate, that D.21-07-011 is in violation of Public Utilities Code Section 8371. The record developed in Track 3 of Rulemaking 19-09-009 justifies the Commission's application of cost-causation principles and suspension of the capacity reservation component of the utilities' standby charges for eligible microgrids.

II. DISCUSSION

A. The Commission has Adhered to Cost-causation Principles and Thereby, Avoided Statutorily Prohibited Cost Shifting.

Public Utilities Code Section 8371(d) requires that the Commission "[w]ithout shifting costs between ratepayers, develop separate large electrical corporation rates and tariffs, as necessary, to support microgrids." Section 8271(d) has been referenced by many parties throughout this proceeding, and serves as the foundation to SDG&E's AFR. While the statutory prohibition of cost shifts does not provide any express exceptions, it cannot be read in a vacuum, and certainly does not eliminate the Commission's authority to align costs with cost-causation principles.[1]

SDG&E fails to appreciate that the purpose of the suspension of the capacity reservation component ("Suspension Program") is to "ascertain the difference in the *costs certain microgrid projects cause* the utilities to incur relative to other types of projects,"[2] not to subsidize microgrids by shifting costs in a way that departs from cost-causation principles to achieve a policy objective. While the latter might be justified in the absence of the statutory prohibition, the statutory prohibition equally cannot be read so broadly as to subsume the Commission's inherent jurisdiction to allocate costs to customers according to their contributions to the cause of those costs.

As previously described in Bloom's comments on the Proposed Decision, the Commission has clearly established the relationship between cost-causation and cost shifting:

> Developing equitable rates based on the principle of cost causation is one of the underlying goals of the Commission's rate making process. Cost causation means that costs should be borne by those customers who cause the utility to incur the expense. However, current residential rate design averages many costs across the customer class, potentially resulting in cross-subsidies. By definition, cross-subsidies result in cost-shifting between customers and customer classes.[3]

The Suspension Program is an extension of the Commission's long-held and well-founded policy that appropriate rate design must adhere to the principle of cost-causation.

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[1] SDG&E AFR, p. 9.
[2] D.21-07-011, Conclusion of Law 2 (emphasis added).
[3] Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations, R.12-06-013 (Filed June 21, 2012), p. 13; see also Bloom Reply Comments on the Proposed Decision, p. 2.

The Commission's commitment to fundamental rate design principles has been evident throughout this proceeding. In adopting the Suspension Program, the Commission adhered to Public Utility Code Section 8371's prohibition of cost shifting by adopting measures that ensure customers are charged according to the costs that they cause through their electricity use. The Commission's narrowly tailored Suspension Program appropriately identifies performance metrics for eligibility requirements to further the commercialization of microgrids while leveraging the positive attributes of a microgrid configuration to the benefit of non-microgrid customers.

SDG&E takes the Commission's analysis of the benefits offered to non-microgrid customers out of context, claiming that the record holds no evidence of benefits to non-microgrid customers and therefore, standby charges cannot be reduced.[4] However, as discussed above, accurately assessing the cost of service for a particular customer class is the first step in determining whether cost shifting has occurred. Benefits offered to non-microgrid customers is only a single element of the cost-causation and cross-subsidization analysis. Nonetheless, the eligibility requirements described in D.21-07-011 ensure that capacity reservation costs are only suspended for microgrids offering highly reliable service, i.e., service that eliminates the need for standby procurement on their behalf. The Commission complied with Public Utilities Code Section 8371(d)'s prohibition on cost shifting by adhering to its cost-causation principles, which are fundamental in determining whether a cost shifting has occurred.

Systems that can meet the requirements in the Proposed Decision would obviate the need for additional costs by consistently operating throughout the day and year. Doing so would ensure a level of predictability that can be incorporated into utility planning. The combination of

[4] SDG&E AFR, pp. 9-11.

regular certification requirements and increased fees in the event of excess demand ensure customers operating these systems will continue to cover their cost of service. Allocating standby charges to those resources that reduce the need for standby service is a violation of cost-causation principles, and procurement of standby power for those resources is imprudent.

B. The Record Supports that Eligible Microgrids Reduce the Need for Standby Service.

SDG&E incorrectly asserts that the record contains no facts supporting a standby charge waiver or reduction, stating:

> SDG&E appreciates that [eligibility criteria and Demand Assurance Amount] limit the quantitative impact of the suspension. But the record shows that there are no facts to support a standby charge waiver or reduction, and that any such waiver or reduction will inevitably result in illegal cost shifts.[5]

In fact, throughout Track 3 of this proceeding, the Commission has developed a robust record that demonstrates that the resources to be afforded a reduction in standby charges achieve a threshold reliability standard that reduces the need for standby service procurement.

Bloom's opening comments on the Track 3 Scoping Memo offered a statistical analysis of the availability of Bloom's fuel cell systems and associated utility cost savings.[6] The opening comments included an analysis conducted by MRW & Associates that evaluated a broad dataset of hourly fuel cell generation from a number of different installations throughout the state to calculate the average $/MWh avoided cost.[7] The analysis showed that fixed capital investments on generation, transmission, and distribution can be avoided through the installation of fuel cell microgrids. Table 4 of the comments quantified the net positive benefit to other customers in the

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[5] SDG&E AFR, p. 8.

[6] Bloom Opening Comments on Track 3 Scoping Memo, pp. 4-6, Table 4, Appendix A (availability analysis) and B (avoided cost analysis).

[7] Bloom Opening Comments on Track 3 Scoping Memo, pp. 7-8, Appendix B.

utilities' service territories.[8] Bloom's comments on the record explained that "[Long Duration or Indefinite Islanding] microgrids have high predictability and reliable output, allowing utilities to adjust their planning, and thus, associated investments based on the capacity being provided."[9]

C. Parties Have Been Afforded Ample Opportunity to Comment on Standby Charges in the Microgrid Proceeding.

SDG&E further asserts that there was limited opportunity to be heard on the Suspension Program. At the same time, SDG&E acknowledges that "[t]hroughout this proceeding, parties have proposed to eliminate or reduce standby charges as a means of facilitating development of microgrids."[10] Indeed, there were a number of opportunities to inform the record and ensure analysis and illustrative calculations on behalf of SDG&E were included. Furthermore, the Track 3 Scoping Memo included an entire section dedicated to utility response.[11]

Taking advantage of the comment opportunities, Bloom offered data demonstrating that reduction of standby charges is warranted for microgrid configurations that can meet specific performance criteria. Considering predictability of avoided costs associated with Bloom's fuel cell systems, Bloom's opening comments to the Track 3 Scoping Memo concluded:

> Exemptions should be mandated when the utility can reasonably plan on the reliable capacity being provided, and therefore avoid the costs Standby Charges are intended to cover. This exemption is also warranted because customers are already incurring a cost by making their own investments to ensure service when the utilities do not meet their obligation.[12]

SDG&E's Track 3 Scoping Memo reply comments did not offer any empirical evidence to refute the argument raised by many parties that a reduction of standby charges is warranted for microgrid configurations that are able to meet certain performance criteria. To the extent that

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[8] Bloom Opening Comments on Track 3 Scoping Memo, p. 8, Table 4.
[9] Bloom Opening Comments on Track 3 Scoping Memo, p. 3.
[10] SDG&E AFR, p. 4.
[11] Track 3 Scoping Memo, p. 2.
[12] Bloom Opening Comments Track 3 Scoping Memo, pp.3-4.

SDG&E has not adequately demonstrated its inability to adjust costs to account for the highly reliable microgrids, it is not because of the Commission has deprived it of the opportunity to do so.

III. CONCLUSION

Bloom urges the Commission to deny this AFR and continue this proceeding with haste. As all parties are aware, there is a significant capacity shortfall and further delaying a decision will undoubtedly reduce system demand at a time when it is needed most.

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Respectfully submitted,

/s/

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