



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking
Regarding Microgrids Pursuant to
Senate Bill 1339 and Resiliency
Strategies

Rulemaking 19-09-009

**OPENING COMMENTS OF THE PUBLIC ADVOCATES OFFICE
ON THE ASSIGNED COMMISSIONER'S SCOPING MEMO
AND RULING FOR TRACK 3**

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AND RULING FOR TRACK 3**

I. INTRODUCTION

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits these opening comments on the *Assigned Commissioner's Amended Scoping Memo and Ruling for Track 3* (Ruling).¹ Cal Advocates structures these comments as responses to select questions from the Ruling.

Cal Advocates recommends that the California Public Utilities Commission (Commission) should quantify public benefits of microgrids before considering whether to create incentives for resiliency-related services to the public. Specifically, the proposal to waive standby charges prior to valuation of public benefits is an unsupported, indirect, and unproven approach that could result in cost-shifting between customer classes in violation of Senate Bill (SB) 1339.² Without a valuation of public benefits, the proposal to waive standby charges would be based on the hope, that public benefits will materialize and that their value is correlated to the cost of waiving standby charges.

¹ Rulemaking (R.) 19-09-009, *Assigned Commission Amended Scoping Memo and Ruling for Track 3* (February 9, 2021) (Ruling).

² SB 1339 (Stern) Stats. 2018, Ch 566, see Public Utilities Code Sections 8371(b)&(d).

The Resiliency and Microgrids Working Group (RMWG) is scheduled to address the value of resiliency in May through August of 2021.³ Those meetings will produce, or at least move the Commission much closer to, an estimated value of resiliency in California. If standby charge waivers are intended to incentivize resiliency, it is premature to consider those waivers before the Commission has considered the RMWG's recommendations. Only if it is first established that microgrids provide resiliency-related benefits to non-participants, and only if such benefits are quantified, can the Commission develop a targeted policy mechanism to realize such benefits. Since the RMWG is scheduled to address these very issues, there is no reason to waive standby charges at this time, without the information provided by the RMWG's efforts to determine the value of resiliency.

Parties in R.19-09-009 proposing to waive standby charges (the Proposing Parties) bear the burden to demonstrate that waiving standby charges would directly provide quantifiable public benefits. Such information is necessary for the Commission to determine whether a standby charge waiver policy would shift costs from microgrid users to non-users in violation of SB 1339's cost shifting prohibitions. The Proposing Parties should also be required to prove that a standby charge waiver is the most efficient and effective policy mechanism for realizing microgrid benefits for non-participants. To date, the Proposing Parties have not provided empirical evidence to support a waiver of standby charges and instead base their proposal on abstract ideas. Cal Advocates looks forward to seeing the Proposing Parties' facts and analysis that support their assertions.

II. COMMENTS

A. Responses to Section B (“Overarching Scoping Questions”)

1. *What are potential consequences of waiving standby charges? Please quantify wherever possible.*
 - a) *If reducing or eliminating standby charges for microgrids would facilitate the installation of new microgrid capacity that would*

³ The RMWG Schedule is available at <https://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442467533>.

create benefits for non-microgrid customers, please detail how, and quantify the benefits.

- b) *If reducing or eliminating standby charges for microgrids would result in a cost shift prohibited by SB 1339, please detail how, and quantify the cost shift.*

The lack of public data on the total microgrid capacity in California makes it difficult to determine the cost shift that could result from granting additional standby charge exemptions to microgrids from standby charges.⁴ However, given SB 1339's prohibition against cost shifting, it is critical to review this issue.⁵ Both the value of standby charge exemptions and the value of microgrid benefits must be quantified before the Commission considers a policy that exchanges standby charge exemptions for microgrid benefits. Otherwise, as explained below, the proposed standby charge waiver policy would likely result in a cost shift from microgrid users to non-users in violation of SB 1339.

Data collected from Pacific Gas and Electric Company (PG&E) indicates that standby charge waivers for nonrenewable microgrid infrastructure would result in a revenue shortfall that would be paid by all ratepayers, including non-users of microgrids. In response to a data request from Cal Advocates, PG&E provided an estimate of the capacity of nonrenewable generators that are a part of microgrids in their service area as of February 2021. PG&E estimated that the total capacity of those generators is 1500 megawatts (MW) and the "reservation capacity" (to which standby charges are applied) is 323 MW.⁶ This capacity represents customers whose microgrids meet a portion of their onsite load.

Per PG&E's Standby Charge Tariff (Schedule SB), reservation charges applied to that reservation capacity on a per-kW basis. If the microgrid interconnects at the

⁴ Certain types of generators, such as those eligible for the Net Energy Metering (NEM) Tariff, are currently exempted from Standby Charges. More information is available at https://www.pge.com/tariffs/assets/pdf/tariffbook/ELEC_SCHS_NEM2.pdf.

⁵ Public Utilities Code Sections 8371(b)&(d).

⁶ PG&E, *Response to Data Request CalAdvocates_011_Q01* (March 1, 2021).

transmission level, those reservation charges are currently about \$1.17/kW.⁷ If the microgrid interconnects at the distribution level, the reservation charges are currently about \$8.07/kW.⁸ PG&E’s annual revenue shortfall that would result from exempting these resources depends on the ratio of transmission interconnections to distribution interconnections, but is likely to be millions of dollars per year.² The Commission should require a more precise estimate of the revenue shortfall from the investor-owned utilities (IOUs) before adopting any standby charge waivers.

This shortfall represents the degree to which customers who receive exemptions are not funding the infrastructure and generation procured to serve them. As such, those costs would be funded by customers without microgrids, and this represents a cost shift in violation of Public Utilities Code Section 8371(d).

B. Responses to Section F (“Resource Eligibility Questions”)

1. Please indicate which resource types below should be granted a partial or complete waiver [from standby charges] and explain why (multiple answers are acceptable).

a. No additional resource types, i.e. standby charge exemptions limited to:

i) Resources that qualify for exemptions or waivers in existing CPUC authorized rate schedules, with no additional revisions;

ii) Resources that qualify for exemptions or waivers through implementation of physically assured load reduction and a physical assurance agreement executed with the utility;

iii) Only renewable electrical generating facilities as defined by the California Energy Commission Renewable Portfolio Standard Eligibility Guidebook and the Overall Program Guidebook;

⁷ PG&E Schedule SB, at Sheet 4. Available at https://www.pge.com/tariffs/assets/pdf/tariffbook/ELEC_SCHEDS_SB.pdf.

⁸ PG&E Schedule SB, at Sheet 4. Available at https://www.pge.com/tariffs/assets/pdf/tariffbook/ELEC_SCHEDS_SB.pdf.

² If all these nonrenewable microgrid resources were interconnected at the transmission level (which is not the case, but helpful to use as a hypothetical), then the annual revenue shortfall would be 323 MW * (1000 kW/MW) * (12 months/year) * (\$1.17/kW) = about \$5 million/year. If all these resources were interconnected at the distribution level, then the annual revenue shortfall would be 323 MW * (1000 kW/MW) * (12 months/year) * (\$8.07/kW) = about \$31 million/year. Again, the Commission should require the IOUs to provide a more precise estimate of the overall potential shortfall.

iv) Backup diesel generators that serve health care facilities as defined by Health and Safety Code 41514.1 (referenced in P.U.C. 8371(d));

b. Natural gas generators that comply with emissions standards adopted by the State Air Resources Board pursuant to the distributed generation certification program requirements of Section 94203 of Title 17 of the California Code of Regulations, or any successor regulation (referenced in P.U.C. 8371(d));

c. Resources that meet some other set of criteria (please explain);

d. No limits other than meeting the criteria defined elsewhere that are not related to resource eligibility.

Standby charge exemptions should only apply to those resources exempted by statutes and/or regulations, as specified in the Resource Eligibility Questions above, Section F.2.a.(i)-(iv). Any changes to existing statutes or tariffs that grant standby charge exemptions should also apply to microgrids. Generation technologies that are not exempted by statute or regulation should be subject to standby charges to mitigate cost-shifting onto non-participant ratepayers and to ensure that owners/customers of distributed energy resources (DERs) pay their fair share for use of the larger grid.¹⁰

The Commission should also consider that attempting to subsidize technology benefits indirectly through rates may adversely affect California's future environmental and energy goals. The economics of a microgrid investment are primarily based on microgrids' ability to supply customer load at a lower cost than standard utility service.¹¹ Given that natural gas prices in California are currently low and retail electricity prices

¹⁰ R-19-09-009. *Standby Charges- Energy Division Staff Questions*, (Filed February 9, 2021) California Public Utilities Commission, pg. 1 ("The utilities assess customers standby charges to pay for the expenses the utilities incur to have the ability to provide standby service...expenses include transmission capacity, distribution capacity, resource adequacy, and energy.").

¹¹ Hanna et al., *Evaluating Business Models for Microgrids: Interactions of Technology and Policy*, *Energy Policy* 103 (2017) 47-61, p. 51 ("The business case for local energy provision rests on avoiding utility service costs.") accessed at <https://www.sciencedirect.com/science/article/pii/S0301421517300101>.

are high,¹² ¹³ it follows that microgrid investments will trend in favor of gas-based generation, absent regulatory intervention. Research shows that grid decentralization policies that fail to encourage the deployment of renewable resources could lead to widespread deployment of natural gas-based microgrids in California.¹⁴ While emissions from a single gas-based microgrid may be relatively small when compared to diesel generation or the larger grid, in a scenario where there are large numbers of small, decentralized resources emitting gas-based carbon, microgrid deployment may lead to higher emissions that are counter to California’s long term climate goals.

The Commission should not adopt a blanket waiver for microgrid standby charges, as it could incentivize gas powered microgrids and provide an indirect subsidization of non-renewable resources. Standby charge waivers would also lead to unjustified cost-shifting across ratepayers, as standby charges are applied to ensure users and owners of DERs pay their fair share for use of the larger grid. Finally, as witnessed in the progression of the Net Energy Metering (NEM) tariff, rate-based subsidies are difficult to change or eliminate once adopted.¹⁵ Consideration of these factors should be central to subsidy policy discussions in this proceeding.

¹² The average retail price for electricity in California is \$16.89/kWh, 7th highest in the nation. The US Energy Information Administration, *State Electricity Profiles* (updated November 2020), available at <https://www.eia.gov/electricity/state/>.

¹³ The US Energy Information Administration, *Short-Term Energy Outlook* (February 9, 2021), available at <https://www.eia.gov/outlooks/steo/report/natgas.php>.

¹⁴ Hanna et al., *Evaluating Business Models for Microgrids: Interactions of Technology and Policy*, Energy Policy 103 (2017) 47-61, p. 47 (“We find that optimal investment leads to some deployment of renewables but that natural gas technologies underpin the most robust business cases—due in part to relatively cheap gas and high electricity rates.”), accessed at <https://www.sciencedirect.com/science/article/pii/S0301421517300101>.

¹⁵ “The history of NEM in California is similar to other regulatory policies meant to benefit a new technology or activity: they start as small programs, sometimes with legislated limits, and the early adopters benefit. Then interest grows, business models are built that rely on program mandates or subsidies, and market participants develop a keen interest in keeping the program alive. In response to their strong advocacy, limits get raised or eliminated and the program gets extended.” Borenstein, Severin, *Can Net Metering Reform Fix the Rooftop Solar Cost Shift?* (January 2021) The Energy Institute at Haas, UC Berkeley, accessed at <https://energyathaas.wordpress.com/2021/01/25/can-net-metering-reform-fix-the-rooftop-solar-cost-shift/>.

C. Responses to Section G (“Questions to Identify Details of Proposed Service Provided”)

1. *What existing services (define and describe in detail) do distributed energy resources in microgrids already qualify for that the microgrid owner can offer to the IOU or the CAISO?*

The introduction of these comments detailed how the Commission should approach the issue of valuing and potentially incentivizing resiliency services. In this section, Cal Advocates will address microgrid services beyond those related to resiliency; for example, several parties argued that DERs should be compensated for “grid services.”¹⁶ In Sunrun’s opening comments on the Track 2 Staff Proposal, Sunrun argued that the payment for these services should be in addition to Net Energy Metering (NEM) compensation.¹⁷ Parties have not been specific about which services should be compensated. However, if voltage support was one such service, then the Commission should note that: 1) the value of voltage support is location-dependent and 2) the California Independent System Operator (CAISO) runs a market that compensates voltage support in which microgrids can currently participate.

Voltage support is usually defined as the ability to produce or absorb reactive power.¹⁸ A 2006 report from ECCO International, Inc. states that “Reactive power does not travel over long distances at high line loadings due to significant losses on the wires.

¹⁶ Parties that supported compensation for grid services included Clean Coalition and the Microgrid Resources Coalition. (R.19-09-009, *Clean Coalition Opening Comments in Response to Proposed Decision Adopting Rates, Tariffs, and Rules Facilitating the Commercialization of Microgrids Pursuant to Senate Bill 1339 and Resiliency Strategies* (December 28, 2020), p. 6. Accessed at <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M357/K712/357712616.PDF>; R.19-09-009, *Reply Comments of the Microgrid Resources Coalition on the Assigned Commissioner and Administrative Law Judge’s Ruling Seeking Comment on Policy Questions* (October 2, 2020), p. 4. Accessed at <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M348/K078/348078406.PDF>.)

¹⁷ R.19-09-009, *Sunrun, Inc. Opening Comments On Administrative Law Judge’s Ruling Requesting Comment On The Track 2 Microgrid And Resiliency Strategies Staff Proposal, Facilitating The Commercialization Of Microgrids Pursuant To Senate Bill 1339* (August 14, 2020), p. 9.

¹⁸ Reactive power is the "excess" power that is generated or absorbed in an Alternating Current (AC) circuit, created when current flow in an AC circuit is either ahead or behind the measured voltage. A basic description is available at <https://www.electronics-tutorials.ws/accircuits/reactive-power.html>.

Thus, reactive power usually must be procured from suppliers near where it is needed.”¹⁹ Any valuation of the voltage support for microgrid-based DERs needs to account for where reactive power is needed and whether the microgrid is close enough to serve that need.

The CAISO has established a mechanism to solicit grid services from these resources: the ancillary services market, which includes voltage support.^{20, 21} Microgrids can provide voltage support through this existing market, as has been demonstrated by the increase of battery storage participation in the CAISO ancillary services market.²² Additionally, this “ancillary services” market allows for price discovery, and the Commission should analyze the “ancillary services” market in estimating the value of microgrid services.

2. Under what specific circumstances would it be in the public interest to require utilities to waive or reduce standby charges to a microgrid for intentional islanding? How should the benefits to the public be identified, measured, and valued?

Cal Advocates’ response to this question (Question G.2.) is combined with its response to the next question (Question G.3).

3. Would providing electric service to a critical facility as defined by D.19-05-042 in situations where the IOU does not provide service, such as during a planned public safety power shutoff, be sufficient to merit waiving or reducing standby charges?

¹⁹ Angelidis, George, and Papalexopoulos, Alex, *Reactive Power Management and Pricing in the California Market* (2006), ECCO International, Inc., accessed at <https://eccointl.com/~eccointl/downloads/Reactive-Power-Management-and-Pricing-in-the-California-Market.pdf>.

²⁰ CAISO, *Reactive Power Requirements and Financial Compensation* (May 22, 2015), pp. 5-6, accessed at https://www.caiso.com/Documents/IssuePaper_ReactivePowerRequirements_FinancialCompensation.pdf

²¹ Direct Energy Business, *What is Reactive Power and Why Does it Matter?* (posted May 23, 2016), accessed at <https://business.directenergy.com/blog/2016/may/reactive-power#:~:text=Reactive%20power%20is%20either%20generated,in%20a%20reduced%20ability%20to.>

²² CAISO, *Reactive Power and Financial Compensation: Draft Final Proposal* (November 12, 2015.), p. 12, accessed at <http://www.caiso.com/Documents/DraftFinalProposal-ReactivePowerRequirements-FinancialCompensation.pdf>.

Supplying power to critical facilities during a grid outage is undoubtedly a valuable service, however, this proceeding has not yet established: 1) how the Commission should quantify that value, and 2) whether an exemption from standby charges is an effective way to incentivize that service. The RMWG is slated to address the first issue from May to August this year, and its findings should inform the Commission as to whether and how to compensate resiliency.

Regarding the second issue, standby charge exemptions and resiliency services are fundamentally mismatched. Resiliency addresses needs that are immediate and sporadic in nature, such as outages, while standby charges reflect longer-term planning to address regular rate designs. The standby charges a customer should pay a utility each month are the result of a review of the customer's generating capacity, a process that can take 12 months to finalize.²³ Developers will likely want standby charges, if adopted, to be in place for many years to ensure cost certainty for their customers. Therefore, standby charge exemptions may likely result in long-term subsidies to microgrid owners and developers.

Resiliency needs, on the other hand, are more immediate by nature. The frequency and duration that a microgrid may be called upon to power a specified facility during an outage is uncertain. Using standby charge exemptions as a proxy payment for resiliency services, therefore, is an imprecise method for subsidizing resiliency since the standby charge exemption is by nature long-term and resiliency needs may be short-term. Furthermore, the IOUs' Wildfire Mitigation Plans have the goal of decreasing the

²³ Per PG&E Electric Schedule SB: "For new or revised contracts, the Reservation Capacity shall be set as initially determined by the customer, except that during the first 12-month period following the date of initial specification, PG&E may review the specified Reservation Capacity on a monthly basis and make adjustments as warranted..." Accessed at https://www.pge.com/tariffs/assets/pdf/tariffbook/ELEC_SCHS_SB.pdf.

frequency and duration of wildfire-related outages,²⁴ ²⁵ ²⁶ so it is possible that standby charge exemptions would outlast the scenarios microgrids are intended to address.

Following the valuation of resiliency services in the RMWG, the Commission can establish, if justified, a more precise policy mechanism to incentivize resiliency services, such as one that can respond to an evolving grid and that does not embed long-term cost shifts.

D. Responses to Section H (“Cost Benefits Questions”)

1. Are standby charges appropriately rooted in cost causation principles? If reducing or exempting microgrids from standby charges would result in a cost shift prohibited by Senate Bill 1339, please detail how.

Standby charges are entirely based on cost causation principles. Standby charges have been developed and revised to supplement rate designs to better align with current grid and economic conditions. Decision (D.) 01-07-027 offers insight into why the Commission found that standby charges were necessary to protect against cost shifts.²⁷

D.01-07-027 addresses rules and policies related to generation in the wake of California’s electricity crisis. The Commission found that while small on-site generators could help address the state’s generation shortfall, there are fixed utility costs that customers continue to pay for when a facility installs on-site generation. However, the on-site generation meant that a customer paid far less in utility bills while still relying on utility infrastructure, creating a revenue shortfall.²⁸ To prevent the revenue shortfall from

²⁴ R.18-10-007, PG&E, *2021 Wildfire Mitigation Plan Report* (February 5, 2021), pp. 16-17, accessed at https://www.pge.com/pge_global/common/pdfs/safety/emergency-preparedness/natural-disaster/wildfires/wildfire-mitigation-plan/2021-Wildfire-Safety-Plan.pdf.

²⁵ R.18-10-007, SCE, *2021 Wildfire Mitigation Plan Update* (February 5, 2021), p. 11, accessed at <https://www.sce.com/sites/default/files/AEM/Wildfire%20Mitigation%20Plan/2021/SCE%202021%20WMP%20Update.pdf>.

²⁶ R.18-10-007, SDGE, *2020-2022 Wildfire Mitigation Plan Update* (February 5, 2021), p. 136, accessed at <https://www.sdge.com/sites/default/files/regulatory/SDG%26E%202021%20WMP%20Update%2002-05-2021.pdf>.

²⁷ D.01-07-027, *Interim Decision Adopting Standby Rate Design Policies* (July 12, 2001) (proceeding R.99-10-025). Available at https://docs.cpuc.ca.gov/published/final_decision/8823.htm#P72_1741.

²⁸ D.01-07-027, *Interim Decision Adopting Standby Rate Design Policies* (July 12, 2001), p. 57 (proceeding R.99-10-025, (“We find that most of the distribution system costs to serve standby customers
(continued on next page)

being recovered from nonparticipating customers (which would result in cost-shifting) the Commission found it necessary to continue to apply standby charges.²⁹

The record developed in R.99-10-025, that led to D.01-07-027, reveals a vigorous debate over which costs are fixed and which are variable, and how standby charges should be used to recover fixed charges.³⁰ The current charges were developed after substantial testimony and have not been changed since 2001. The Commission should consider the Microgrid Resources Coalition’s statement that utilities assess standby charges in a manner that does not account for the operational nature of microgrids.³¹ The Commission should first conduct a fact-based assessment of the methodology for calculating standby charges before considering a wholesale exemption of nonrenewable resources from such charges. The current record does not support such a blanket exemption.

4. What controls are needed to ensure that the customer generator or microgrid project is not over-compensated and not double-counted from among multiple programs[,] including the Base Interruptible Program, the Emergency Load Reduction Program, individual power purchase agreements or bilateral contracts, Net Energy Metering, and the various incentive programs such as the Self Generation Incentive Program?

Cal Advocates recommends that the issue of double-counting be addressed after the RMWG has established a working value of resiliency and has decided upon how to best incentivize microgrids to provide resiliency services. However, Cal Advocates preliminarily recommends that a microgrid that receives public funding be required to provide public benefits. Any compensation that microgrids receive for resiliency should be in exchange for services that are not already available through the programs listed in

appear to be fixed in nature. For example, distribution infrastructure investments are lumpy in nature.”). Available at https://docs.cpuc.ca.gov/published/final_decision/8823.htm#P72_1741.

²⁹ D.01-07-027, *Interim Decision Adopting Standby Rate Design Policies* (July 12, 2001), p. 81, Conclusion of Law 4 (“It is appropriate for distribution infrastructure costs to be recovered from backup customers.”).

³⁰ R.99-10-025, *Order Instituting Rulemaking into distributed generation* (October 21, 1999).

³¹ R.19-09-009, *Comments of the Microgrid Resources Coalition on the Track 1 Proposed Decision of ALJ Rizzo* (May 19, 2020), pp. 10-11.

Question 4 above. This is an issue that should be addressed in the forthcoming value of resiliency discussion in the RMWG.

It is not enough for a publicly-subsidized microgrid to merely pledge to provide benefits, such as allowing community residents to charge their phones at the microgrid-powered facility during an outage. The obligation to provide benefits should be required, and enforcement mechanisms should be in place to ensure performance. This is not unprecedented. For example, the Blue Lake Rancheria Microgrid acts as a Red Cross Evacuation Site when needed; during an emergency, it becomes a public shelter, and the Blue Lake Rancheria staff has been trained in emergency preparedness.³² This is one possible way to provide public value that should be discussed in the RMWG.

III. CONCLUSION

Cal Advocates reiterates that, when justified, a direct incentive is a superior means of achieving a public policy goal than a cost exemption or a compensatory tariff.³³ Programs like the California Solar Initiative helped commercialize new technologies without embedding long-term costs shifts through tariffs or cost exemptions.³⁴ No party has quantified the rate impact of standby charge exemptions, which is necessary to prevent cost shifting, and no party has proven that such exemptions will improve resiliency.

Any incentive should only be implemented after the Commission determines how to provide the benefits to the public. That process has not yet taken place in this

³² The Schatz Energy Research Center, *The Blue Lake Rancheria Microgrid*. More information available at <https://schatzcenter.org/blrmicrogrid/>; Chelo, Maia, *Blue Lake Rancheria receives FEMA's 2017 Whole Community Preparedness Award* (October 2, 2017) Schatz Energy Research Center, accessed at <https://schatzcenter.org/2017/10/blue-lake-rancheria-receives-femas-2017-whole-community-preparedness-award/>.

³³ R.19-09-009, *Opening Comments of the Public Advocates Office on the ALJ's Ruling Requesting Comment on the Track 2 Microgrid and Resiliency Strategies Staff Proposal* (August 14, 2020), p. 3. Available at <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M345/K149/345149864.PDF>.

³⁴ The California Solar Initiative helped drive the cost of rooftop solar from \$12/watt to \$5/watt. California Distributed Generation Statistics, maintained by Energy Solutions, available at <https://www.californiadgstats.ca.gov/charts/csi/>.

proceeding, and any resiliency incentives should be taken up after the RMWG addresses the value of resiliency in May through August of 2021.

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