

3/14/2022

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RE: Comments on Distribution Circuit Multiplier Straw Proposal

## **I. Introduction**

Zero-Point Development, Inc. (“Zero-Point”) is pleased to offer the following comments on the “Clean Peak Energy Standard Distribution Circuit Multiplier Straw Proposal,” which the Department of Energy Resources (“DOER”) put forward on February 25, 2022 (the “Straw Proposal”). Zero-Point is a family-owned renewable-development company committed to advancing the progress of renewable energy solutions as a viable and economically-competitive resource alternative for all consumers in the United States. Having successfully developed and installed over 175MW, DC of solar capacity and 50MW of energy storage in the Commonwealth since 2011, Zero-Point believes strongly in the independent and sustainable energy production capacity of the Commonwealth. The Clean Peak Energy Standard (the “Program”) broadly, and the Distribution Circuit Multiplier (“DCM”) specifically, offer interesting and innovative opportunities for carefully crafted policy to incentivize the renewables development community to reduce the fossil fuel footprint of electricity consumption during peak hours. The Program reflects a ground-breaking approach that makes Massachusetts a leader nationally and is critical to the Commonwealth meeting its Clean Energy goals. However, in order for the Program and the DCM to be successful and realize its potential, Zero Point offers the following recommendations to DOER:

1. DOER should broaden the sources it uses for identifying circuits for DCM eligibility to ensure it is using the most current and complete data sets available.
2. In its final guidance, DOER should explicitly confirm its flexibility to designate circuits as eligible for the DCM on a finding of good cause.
3. DOER should consider granting eligibility to all energy storage resources subject to operational limitations, as proposed in more detail by other commenters.
4. In order to allow financing of projects that serve the goals of the DCM, DOER must extend the eligibility period for the circuit multiplier or otherwise assure that this revenue stream will only be withdrawn if it can be replaced by an equal or greater revenue stream.



## II. Comments

### a. DOER should broaden the sources it uses for identifying circuits for DCM eligibility to ensure it is using the most current and complete data sets available.

On page four of the Straw Proposal, DOER states that it would use existing public datasets, “for example, data provided by utilities in annual Grid Modernization Reports,” to identify circuits for DCM eligibility. DOER repeats its reference to those reports as a possible source relevant data on page six of the Straw Proposal. DOER should not rely on utility Grid Modernization reports alone.

The scope of the annual Grid Modernization Reports is set by the Department of Public Utilities, not DOER, and may change in the future. Those reports also have a different and broader scope than identifying circuits that would benefit from energy storage. In addition, annual reports are prepared only once per year and may not reflect current information when they are filed. Moreover, the utilities’ Grid Modernization Reports are not accessible to the development community until they are filed, so do not provide ongoing transparency on which developers can rely for planning future projects.

Because the annual Grid Modernization Reports are not tailored to be indicative of the criteria being used for the DCM and may not be current, DOER should use other publicly available information in addition to or instead of the annual Grid Modernization Reports. Zero-Point recommends that DOER use the information that is available from the interconnection reporting submissions by the electric distribution companies (“EDCs”) which detail connecting DG by type and feeder, located here:

<https://www.mass.gov/info-details/utility-interconnection-in-massachusetts#utility-interconnection-reports->

This is the only collection of data that specifically list the information used for the DCM. It is already used to create hosting capacity maps, which serve a related purpose to the DCM, and these reports are update on a monthly basis rather than annually.

### b. In its final guidance, DOER should explicitly confirm its flexibility to designate circuits as eligible for the DCM on a finding of good cause.

As explained in the Straw Proposal and the current DCM Guideline, the purpose of the DCM is to identify locations where clean peak resources can provide additional benefits to the distribution system. A formulaic approach may identify many of the locations where clean peak resources can provide such extraordinary benefits, and it has the benefit of simplicity. However, given the rapidly



changing deployment of distributed resources, evolving demand from technologies such as electric vehicles and electrification, and ongoing EDC investment in distribution systems, a purely formulaic approach will almost certainly miss locations for which there would be good cause to grant DCM eligibility. DOER should confirm in its final guidelines on the DCM that developers or EDCs can request that DOER designate a particular circuit or location be designated as eligible for the DCM and that DOER will grant these requests if it is satisfied that good cause warrants such a designation.

This process is especially important for energy storage developers that have already used publicly available interconnection data, such as that indicated above, to site energy storage systems to provide direct benefits to the distribution system. Developers, such as Zero-Point have used available information to identify those areas of the distribution system that would benefit from clean peak resources in reliance on DOER finalizing a DCM. Developers in this situation should be able to submit the data they used for circuit selection and prove that they provide the benefits sought by the DCM even if the circuits on which their projects are located are not identified through DOER's formulaic approach as applied to the data sets DOER chooses for this purpose. If this is not possible, then what would otherwise be the first wave of DCM eligible projects may not materialize, and there could be an unnecessary delay in project development as developers wait for DCM-eligible circuits to be identified and then begin the development process anew.

It would also be unfair and without a policy basis to deny eligibility to projects that can clearly demonstrate they provide the benefits sought by the DCM simply because the formula for identifying eligible circuits is incomplete. DOER has typically included a mechanism for excepting projects from similar restrictions on a showing of good cause. *See, e.g.*, 225 C.M.R. §§ 20.05(5)(g)(8), 20.05(5)(k)(2), 20.07(4)(g)(5)(b); SMART Statement of Qualification Reservation Period Guideline (Sept. 22, 2021) §§ 6(e), 6(g); SMART Guideline Regarding Land Use (Sept. 22, 2021) § 6(b). Developers willing to support the Clean Peak Program in its early stages by developing projects that would support the distribution system expected and relied on a reasonable process for allowing them to demonstrate eligibility. The practice of allowing a good cause showing in the event that a formulaic approach results in an inappropriate outcome for a particular case should be continued in DOER's guidance on the DCM. Zero-Point urges that part of the circuit selection process should include input from developers who have developed in good faith to support the Commonwealth's goals through the Clean Peak Program.



**c. DOER should consider granting eligibility to all energy storage resources subject to operational limitations, as proposed in more detail by other commenters.**

Other commenters propose that DOER revise its eligibility criteria to ensure that all energy storage resources that are subject to operational limitations by the interconnecting utility be eligible for the DCM. There is merit to such an approach because, as explained in more detail in those comments, operational restrictions reduce the economic viability of energy storage projects and are imposed as a result of asserted constraints on the distribution system. DOER should investigate and adopt that approach, perhaps with additional stakeholder input, to address the changing environment for energy storage projects that is resulting in more frequent imposition of operational restrictions.

This approach could be combined with the recommendations described above in Sections II.a and II.b, although it is not necessary to adopt this approach for the recommendations in Sections II.a and II.b to be effective. This approach would not conflict with either of the recommendations in Sections II.a and II.b, and it could supplement the approaches described in those recommendations to reduce the need to use a case-by-case good cause process.

**d. In order to allow financing of projects that serve the goals of the DCM, DOER must extend the eligibility period for the circuit multiplier or otherwise assure that this revenue stream will only be withdrawn if it can be replaced by an equal or greater revenue stream.**

Unlike for the other value multipliers provided through the Program (*see* 225 C.M.R. § 21.05(6)), DOER now proposes to limit the eligibility of a project to receive the DCM to eight years. Straw Proposal at 8. This proposal is *directly contrary to the existing DCM Guideline*, on which the development community has relied since that Guideline was published in August of 2020. The existing guideline states:



***The other-than-one multiplier assigned to a new Clean Peak Resource at the time of the submission of a complete and accurate Statement of Qualification Application shall be effective for the life of the project.***

Clean Peak Distribution Circuit Multiplier Guideline, at 2 (Aug. 14, 2020) (emphasis added), available at <https://www.mass.gov/doc/clean-peak-distribution-circuit-multiplier-guideline/download>.

DOER had the policy correct in 2020, and it would be a mistake to reverse course now. As explained below, restricting the eligibility of a Clean Peak Resource for a DCM multiplier to eight years would make it impossible or nearly impossible to finance such a project on that basis. The result would be that some projects designed to take advantage of other revenue streams may also benefit from the DCM, but projects with the specific purpose of advancing the goals of the DCM would not be able to be financed. Thus, limiting the period of the incentive to eight years would undermine the very purpose of the DCM: to incentivize development of projects targeted to provide specific distribution system benefits. Because DOER also announced that the DCM multiplier would be available “**for the life of the project**” changing course now would punish market participants who acted in reliance on DOER’s guidelines.

Without change, the Straw Proposal would likely make DCM-focused projects unfinanceable. DOER’s 2020 policy for the DCM, like its policy for other adders under the Clean Peak Program and SMART Program, correctly recognizes that while the revenue streams these adders or multipliers create persist over time, it is the future expectation at the time of financing that is relevant in order to incentivize project development. DOER has not explained why it thinks the DCM should be different in this respect. But regardless, limiting a Clean Peak Resource’s eligibility term for the DCM to eight-years in hopes that new revenue opportunities will emerge during that period may sound reasonable on the surface, but would have serious negative impacts on the financeability of affected resources. The underwriting of any investment’s anticipated financial return is not dynamic, it is singular. The anticipated cash flow generated by a Clean Peak Resource is analyzed once, prior to installing the equipment. If the cash flow generated by the system meets financial hurdles which justify the investment, then investors will fund the project. If DOER limits a resource’s eligibility to receive a DCM to eight-years, however, the projected cash flow will be adjusted to match the eight-year term on the DCM and no other cash flow will be included until there is certainty that any other cash flow can actually be earned by the resource.



Adjusting the cash flow to an eight-year term would be devastating for the financeability of the types of projects the DCM is intended to incentivize because, currently, a Clean Peak Resource operating under a specific operating profile, as imposed in order to be eligible for the DCM, cannot obtain additional revenue. If that changes in the future, perhaps the DCM may not be necessary to justify the investment in funding the cost to build and operate a Clean Peak Resource. But investors will not finance a project now based on possible policy changes in the future. Accordingly, Zero-Point implores DOER to allow Clean Peak Resources that qualify for the DCM to receive the DCM for a 20-year period that matches the term of the Clean Peak Program.

Even beyond the critical issue of financeability, there are at least two additional reasons why it would be a poor policy decision to restrict eligibility for the DCM to eight years.

First, the commitments that a resource participating in the DCM will take on in order to be eligible are unlikely to be limited to eight years. The term of the financial benefit to the project should be aligned with the term of the operational restrictions it takes to participate. If this is not the case, there is a disincentive to develop such projects, and projects that are developed may face financial pressures to change operations after eight years in a manner that undermines the purpose of the DCM and the EDCs' system planning. The EDCs need to be able to plan the distribution system. Enabling energy storage systems to continue to operate as originally studied provides the stability of analysis needed by the EDCs. In a recent Technical Standards Review Group ("TSRG") meeting on energy storage, the EDCs stressed that operating schedules around resources that intended to participate in the Program provided the long-term certainty needed in order to plan distribution enhancements. That is, the EDCs will make long-term decisions based on long-term commitments from the participating resources. However, under the proposed eight-year limit to the DCM, participating resources would likely need to find new ways of operating in order to replace lost revenues after eight years, which could mean submitting new interconnection applications in order to change their operation and take advantage of any new markets. Not only would this invalidate the distribution system planning done by the EDCs, but it is also not clear that it would even be possible for resources to change operating parameters – the very uncertainty that poses a threat to financing this type of project.

Second, if the DCM is not effective at incentivizing projects designed specifically to serve its intended goals, its effectiveness will be undermined. In implementing the Clean Peak Program, DOER recognized the benefits of energy storage that operates to transport energy from low load hours to high



load hours. SMART projects coupled with energy storage will participate in the Program, but the incremental return to those projects from participating in the Clean Peak Program is small relative to other available revenue streams and is unlikely to drive the deployment of such resources to target distribution system needs or the operation of the energy storage systems to benefit the local distribution circuits. *See, e.g.* 225 C.M.R. § 21.05(6)(f) (providing a 0.3 multiplier for such resources). In contrast, the DCM has the potential to incentivize development of stand-alone energy storage projects designed to reduce peak load and assist the local distribution feeder.<sup>1</sup> These investments and commitments to operation schedules must be made now and cannot be accomplished without certainty of revenue for the investment community. Further, because the compensation rates under the Clean Peak Program assumed the ability to stack revenue from other sources which is currently unavailable to DCM projects which would need to restrict operations in order to participate in the DCM, the investment requires that the DCM, once granted, remain for the life of the system.

Finally, if, despite the reasons outlined above, DOER persists in imposing an eight-year limitation on DCM eligibility, DOER must provide a mechanism to ensure that projects that qualify for the DCM will continue to have predictable and equivalent revenue streams beyond that eight-year period. Because DCM-targeted projects will not be financed if they do not have a more stable revenue stream, if DOER continues with its proposal to eliminate DCM eligibility after eight-years, it will need to provide some mechanism to assure revenue stability to financiers up front if it wants DCM projects to be built. DOER could pursue a hybrid proposal where, DCM eligibility would go away after eight years, ***but only in the event that a new revenue stream of equal or greater value had become possible for the project in the interim*** that would not require operations inconsistent with commitments made to be eligible for the DCM. Such a mechanism could be complex because it might require restudy by the EDC and changes to project operations or infrastructure upgrades, which could result in additional uncertainty and delay. However, if DOER departs from its current guidance and limits DCM compensation to an

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<sup>1</sup> Since energy storage systems designed to participate in the DCM would be placed directly on feeders with DG that will be there for the life of the ESS, there would never be a time when it would not be beneficial to continue to operate in the original fashion. Even if loads change we would not want the ESS to charge at night with dirty power which would increase the Commonwealth's carbon emissions. Additionally, the EDC's cannot plan for the Solar DG to be present since peak loads must be served even on cloudy days. The ESS is studied and sized according to line ratings.





eight-year period, Zero-Point would work with DOER to find a way to preserve at least some of the promise of the DCM to the extent possible.

### **III. Conclusion**

Zero-Point thanks DOER for the opportunity to comment on its February 25, 2022 Straw Proposal, and respectfully requests that DOER:

1. Broaden the sources it uses for identifying circuits for DCM eligibility to ensure it is using the most current and complete data sets available.
2. Explicitly confirm its flexibility to designate circuits as eligible for the DCM on a finding of good cause.
3. Consider granting eligibility to all energy storage resources subject to operational limitations, as proposed in more detail by other commenters.
4. Extend the eligibility period for the circuit multiplier or otherwise assure that this revenue stream will only be withdrawn if it can be replaced by an equal or greater revenue stream.

Zero-Point looks forward to continuing communication and collaboration with DOER as the Program evolves and the DCM guidance is finalized. We are available to discuss these comments at DOER's convenience.

Sincerely,

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