

BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA

Order Instituting Rulemaking Pursuant
to Assembly Bill 2514 to Consider the
Adoption of Procurement Targets for
Viable and Cost-Effective Energy
Storage Systems.

R.10-12-007
(Filed December 16, 2010)

**REPLY COMMENTS OF
DIVISION OF RATEPAYER ADVOCATES
ON THE ENERGY STORAGE PHASE 2 INTERIM STAFF REPORT**

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February 21, 2013

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The Division of Ratepayer Advocates (DRA) hereby files its reply comments in response to parties' comments filed on February 5, 2013 on the questions posed in the Energy Division (ED) Interim Staff Report on Energy Storage.

I. SUMMARY

DRA's reply comments mainly focus on parties' comments regarding targets, preferred resource designation, and cost-effectiveness. In summary, DRA:

- Opposes setting arbitrary megawatt (MW) storage targets;
- Supports removing barriers to the ability of storage providers to compete with other resources;
- Supports the California Energy Storage Alliance (CESA) proposal to include storage in the Investor Owned Utilities' (IOU or utilities) request for offer (RFO) process, in effect requiring the IOUs to consider energy storage in meeting their needs alongside other resources;
- Opposes including energy storage in the loading order;

- Recommends that cost-effectiveness model runs be utilized only for storage applications that will be available in the near term and for informational purposes; and
- Recommends that actual procurement decisions not be based on the cost-effectiveness current model runs for various use-cases.

II. DISCUSSION

A. Targets

While the storage providers promoted setting targets for energy storage, customer representatives, the California Independent Service Operator (CAISO), as well as the utilities all opposed setting arbitrary energy storage targets or set-asides. DRA disagrees with CESA that that the Commission should “(1) establish energy storage procurement goals for resources that are designed specifically to provide frequency regulation and other ancillary services.”¹ As Southern California Edison Company (SCE) points out, if the ratepayers pick up the costs of an arbitrary target it could cost them billions of dollars over the next decade unnecessarily.²

DRA agrees with CESA that the Commission may “(2) adopt rules that cause utilities to look to energy storage systems to provide ancillary services.”³ Further, energy storage should be able to compete in all-source Requests for Offers (RFO) to meet the capacity needs of local areas in the state as a result of once through cooling (OTC) power plant retirements.⁴ Pacific Gas & Electric Company (PG&E) suggests, consistent with CESA’s position, that the utilities be required to consider energy storage in an all-source RFO. PG&E recommends that if energy storage is not selected the utilities must be able to demonstrate that it was not cost-effective, viable, or applicable to meet an identified need.⁵ DRA

¹ CESA at 2.

² SCE at 10.

³ CESA at 2. *See also* Alton Energy (Alton) at 15.

⁴ Alton at 15.

⁵ PG&E at 9.

believes this a reasonable approach. DRA also agrees with the Independent Energy Producers (IEP) that the Commission should focus on integrating storage into the marketplace to determine how it competes against other technologies on performance and cost-effectiveness.⁶ Energy storage should be able to compete on its own or complement other resources to optimize the resource mix at the lowest cost to the ratepayers, while keeping the system reliable.

DRA also supports IEP's comment that all-source RFOs should not present barriers to participation by any resource that qualifies to meet the need or can provide the desired product.⁷ In addition, DRA recommends that the all-source RFO should not place a cap or limit on the amount of procurement from any resource that qualifies to meet the identified need. If energy storage can compete directly with other resources for the total amount of need, including showing that it is viable and reliable, it should be allowed to meet all the authorized energy need.

DRA agrees with SCE that while large-scale procurement could help improve economies of scale, spending enormous sums of ratepayer money for the sole purpose of making something less costly in the future is a bad proposition.⁸ The ratepayers should not be asked to carry the costly burden of large-scale energy storage without justifying the need.

SCE's recommendation on the development of pilot/demonstration programs is consistent with DRA's position. Each pilot/demonstration project should be justified based on potential need, and sized to meet that need.⁹ DRA further recommends that the costs related to the proposed pilot/demonstration projects be justified and capped at the time of the Commission decision approving them.

⁶ IEP at 6.

⁷ IEP at 8.

⁸ SCE at 14.

⁹ SCE at 18.

By the same token, DRA acknowledges that the Commission found in its recent Long Term Procurement Plan (LTPP) decision, Decision 13-02-015 at 2, that the 50MW is a requirement and not just a pilot. We continue to believe pilot projects for storage are the best way of testing uses of new technology in a way that preserves ratepayer dollars and requires study of the lessons learned before committing to additional storage. However, if the Commission does not agree, DRA would oppose any further storage mandates beyond those already adopted in the LTPP decision, and would further oppose any further adoption of pilot programs in this decision given the substantial amount of storage approved in the LTPP decision.

B. Energy Storage as a Preferred Resource

DRA disagrees with the Green Power Institute's (GPI) proposal to treat energy storage like demand response (DR) resources.¹⁰ Energy storage is not the same as DR and should not be part of the loading order, because effective DR will reduce energy consumption by reducing demand while storage may actually increase it. Similarly, DRA disagrees with Clean Coalition's recommendation that the Commission issue a policy statement recommending that energy storage be included as a preferred resource.¹¹ While DRA believes it is reasonable to require the utilities to consider energy storage when considering other resources in an all-source RFO to meet an identified need, this does not equate to including energy storage in the loading order.

Further, storage does not necessarily receive energy from a "clean" source. DRA agrees with SDG&E that the emissions profile of energy storage systems would depend on the storage technology.¹² It likely will be difficult to determine ahead of time whether the source of energy for charging storage is clean, and controversial to include some types of energy storage and not others as a preferred

¹⁰ GPI at 6.

¹¹ Clean Coalition at 10-11.

¹² SDG&E at 5.

resource. As IEP points out, integration of energy storage into the preferred resources mix does not necessarily reduce Greenhouse Gases (GHG); thus, reduction of GHG emissions is not an inherent property of energy storage.¹³

C. Cost-Effectiveness

DRA disagrees with comments made by Clean Coalition¹⁴ and CESA¹⁵ that a cost-effectiveness model based on use cases developed in this case should serve as the sole means of determining the benefits that storage can provide to the grid and ratepayers. Models should not be used to set a threshold whereby, if reached, energy storage can be procured regardless of whether it is the best choice to meet a certain need. That is, DRA would oppose an outcome where the model determines that a certain energy storage technology is “cost-effective” (*i.e.*, has a cost-effectiveness score of 1 or more) to serve a particular need and therefore must be used to meet that need. Rather, models should be used in the RFO evaluation process to help select the optimum resources to meet a certain need for which the Commission authorizes procurement. The Commission should treat results of cost-effectiveness models as preliminary or informational only, and a procurement decision should not be based on the results of running these models.

Use case cost-effective models can be complicated.¹⁶ Models used for procurement should not be complicated or controversial, and if history is any guide, the cost-effectiveness models being developed in this case will be controversial for some time. The wide variation of results based on changes in the input assumptions could cause disputes that will render the models of questionable use to the procurement process. In most cases, such as evaluating offers in an RFO process, simpler evaluation models should provide sufficient information and would likely be less controversial in related proceedings.

¹³ IEP at 3.

¹⁴ Clean Coalition at 11.

¹⁵ CESA at 7.

¹⁶ IEP at 8.

Finally, as Mr. Ellis asserts in his comments,¹⁷ the Commission should do everything possible to avoid unnecessary increases in utility costs. Any new proposed energy storage program must clearly demonstrate that there are ratepayer benefits which exceed their costs, and that the proposed projects are viable and applicable to the identified needs.

III. CONCLUSION

DRA respectfully requests that the Commission adopt the recommendations made in these comments.

Respectfully Submitted

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¹⁷ Mr. Ellis at 4.