

**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.

Rulemaking 10-12-007
(Filed December 16, 2010)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) ON
ASSIGNED COMMISSIONER'S RULING PROPOSING
STORAGE PROCUREMENT TARGETS AND MECHANISMS**

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I. INTRODUCTION

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), San Diego Gas & Electric (“SDG&E”) respectfully submits the following reply comments in the above-captioned Rulemaking concerning the June 10, 2013, Commissioner’s Ruling Proposing Storage Procurement Targets And Mechanisms and Noticing All-Party Meeting (the “Ruling”).

On July 3, 2013, SDG&E responded in opening comments to a straw proposal with potential procurement targets for load-serving entities to procure viable and cost-effective energy storage systems from among emerging storage technologies, as well as companion policies to encourage the cost-effective deployment of energy storage, consistent with Assembly Bill (AB) 2514, as well as several specific questions posed by the Ruling. As discussed more fully below, SDG&E herein reply to address a number of converging and diverging issues, interests and approaches raised by the opening comments of the parties.

II. REPLY COMMENTS

1. Procurement Targets Should Not Be Increased Beyond the Levels Proposed in the ACR

As previously indicated in open comments of SDG&E on the ACR¹, SDG&E believes that the procurement targets as proposed in the ACR do not provide the best approach for achieving an effective and efficient deployment of energy storage systems for several reasons. First, SDG&E believes the target levels are arbitrary. SDG&E as well as several parties in this proceeding commented that the ruling lacks justification for the suggested targets. No technical analysis or other substantive justification for the ACR's proposed procurement targets appears in the record of the Energy Storage OIR. As a result, the record does not justify the proposed targets and certainly does not justify targets in excess of the proposed targets. For example, the California Energy Storage Alliance (CESA) recommended in their opening comments on the ACR to expand the proposed procurement target to 4,325 MWs by 2020, with an additional 3,000 MWs added onto the transmission procurement "bucket" for the proposed 2020 targets². Moreover, Sierra Club California and the California Environmental Justice Alliance (CEJA) also recommended expanding the proposed targets to at least 3,000 MWs with the increases primarily in the customer and distribution categories³. None of these parties provided any technical analysis or other justification to adopt the increased procurement targets.

The Division of Ratepayers Advocates (DRA) correctly pointed out in opening comments to the ACR that "certainly, there is no determination that the ACR's targets are appropriate"⁴ and

¹ Comments of San Diego Gas & Electric Company on Assigned Commissioner's Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013.

² Comments of the California Energy Storage Alliance on Assigned Commissioner's Ruling Proposing Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2012 at Page 3.

³ Opening Comments of Sierra Club California and the California Environmental Justice Alliance on Assigned Commissioner's Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2012 at Page 12.

⁴ Comments of Division of Ratepayers Advocates on the Assigned Commissioner Ruling on Storage Targets Dated July 3, 2013 at Page 2.

“DRA believes that targets the ACR proposes are unjustified”⁵. SDG&E agrees with DRA on these comments. Therefore, since CESA, Sierra Club California and CEJA did not provide any technical analysis and the Energy Storage proceeding lacks the records justifying the proposed targets or any additional increases, SDG&E respectfully recommends the Commission not adopt any of the recommended increases to the proposed procurement targets in the ACR.

2. *Flexibility in the Proposed Procurement Targets is Required to Achieve an Effective and Efficient Deployment of Energy Storage Systems*

As indicated in opening comments to the ACR, SDG&E strongly supports the deployment of energy storage systems in its service territory and throughout the state. SDG&E recognizes the potential benefits of energy storage technology including, but not limited to, potential deferment of distribution capacity upgrades, peak shaving and integration of higher levels of intermittent renewable energy while maintaining or improving overall grid reliability. SDG&E also supports the deployment of energy storage systems on a cost-effective manner as clearly indicated in Public Utility Code §2836.6 and §8360(g). SDG&E recommended the following changes in its opening comments on the ACR to achieve this flexibility:

- *In the event that procurement targets are adopted, these targets should be for 2020 with no interim targets.*⁶

Several parties provided comments to the ACR supporting this position. CESA recommended to “encourage flexibility and adaptability to meet the changing needs of California’s electric power system over time”⁷. DRA stated that “DRA recommends complete flexibility in both the procurement categories and the overall targets because it will encourage

⁵ Comments of the Division of Ratepayer Advocates on the Assigned Commissioner Ruling on Storage Targets Dated July 3, 2013 at Page 2

⁶ Comments of San Diego Gas & Electric Company on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Page 4.

⁷ Comments of the California Energy Storage Alliance on Assigned Commissioner’s Ruling Proposing Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2012 at Page 2.

storage procurement only in situations where it is cost-effective and useful to the goal at hand”⁸. SCE commented “although the ACR proposal is intended to quickly advance and transform the energy storage market in California, such aggressive procurement will come at a high cost to California ratepayers. To prevent electricity customers from bearing excessive costs, the Commission should exercise regulatory flexibility by regularly revisiting the targets as well as the rate of procurement. Moreover, significant flexibility is needed now to broaden the scope of procurement opportunities”⁹. PG&E commented that “the energy storage procurement targets should be shifted, so that less is required in 2014 and 2016, and correspondingly more is required in 2018 and 2020”¹⁰. The Independent Energy Producers Association (IEP) also commented on this matter stating the following “this ‘hard wiring’ of the procurement targets seems inappropriate given the emerging nature of the technology”¹¹. The Clean Coalition also stated that “we recognize the need to avoid overly rigid mandates with respect to energy storage since this is still a nascent market”¹²

SDG&E urges the Commission to consider these recommendations and to adopt only a procurement target for 2020 without interim targets. If the Commission, after further analysis deems it necessary to adopt an interim target prior to 2020, SDG&E recommends adopting the current statutory dates including in Public Utilities Code §2836(a)(1) of appropriate targets by December 31, 2015, and December 31, 2020. This recommendation is similar to the proposal

⁸ Comments of Division of Ratepayers Advocates on the Assigned Commissioner Ruling on Storage Targets Dated July 3, 2013 at Page 3.

⁹ Opening Comments of Southern California Edison Company on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting dated July 13, 2013 at Page 2.

¹⁰ Pacific Gas and Electric Company’s Comments on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2013 at Page 1.

¹¹ Comments of the Independent Energy Producers Association on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Page 4.

¹² Clean Coalition Open Comments on Assigned Commissioner Ruling Dated July 3, 2013 at Page 6.

made by the Green Power Institute in opening comments to the ACR¹³. SDG&E also suggests that the target for 2015 not be greater than 20% of the overall target by 2020.

Furthermore, SDG&E agrees with the recommendation made by DRA regarding “off-ramps”. DRA stated that they “support[s] targets if they afford 100 percent flexibility across the three use categories and in the overall targets”¹⁴. The adoption of this recommendation will be required for compliance with Public Utilities Code §2836.6 which states the following “all procurement of energy storage systems by a load-serving entity or local publicly owned electric utility shall be cost-effective”¹⁵.

- *IOUs should have more control as to when and where storage is added to the system. Operational need, cost and benefits should be driving the deployment of energy storage systems and the timing of those needs. Those needs will differ for transmission, distribution and customer uses.*¹⁶

SDG&E strongly agrees with other parties that IOUs should have 100% flexibility to procure energy storage among these categories based on the aforementioned characteristics in order to achieve an efficient and effective deployment of energy storage systems. DRA correctly supports this position stating that “IOUs should also have flexibility in the amount they procure for the ACR’s three categories of uses: transmission, distribution, and customer-side storage”¹⁷. The California Independent System Operator (CAISO) commented “Assuming that the transmission and distribution buckets describe electrical grid interconnection, the ISO encourages the Commission to focus on the operational characteristics of storage technologies

¹³ Comments of the Green Power Institute on the ACR’s Ruling Proposing Storage Procurement Targets Dated July 3, 2013.

¹⁴ Comments of Division of Ratepayers Advocates on the Assigned Commissioner Ruling on Storage Targets Dated July 3, 2013 at Page 2.

¹⁵ California Public Utilities Code §2836.6

¹⁶ Comments of San Diego Gas & Electric Company on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Page 5.

¹⁷ Comments of the Division of Ratepayer Advocates on the Assigned Commissioner Ruling on Storage Targets Dated July 3, 2013 at Page 4.

and not particular categories of use or technology alone”¹⁸. The CAISO included in their comments that “rather than viewing the ‘use’ buckets as establishing prescriptive procurement goals, the ISO looks forward to gaining experience with the different types of storage technologies.”¹⁹ The Utility Reform Network (TURN) also commented on this topic. TURN stated that “the IOUs should be provided flexibility to seek to change the range of procurement among the various buckets and also over time.”²⁰

SCE stated that “utilities should be permitted flexibility in procuring among the use-case ‘buckets’ in order to direct investments to maximize customer value”²¹. SDG&E respectfully suggests that if the Commission adopts procurement targets they should adopt parties’ recommendations that targets be on an overall basis for energy storage systems instead of specific targets for transmission, distribution and customer levels.

3. *IOUs Should Be Able to Own Up to 100% of Distribution and Transmission Level Storage and Be Able to Participate in Customer Level Energy Storage Systems.*

SDG&E previously recommended to the Commission to allow up to 100% ownership of distribution and transmission level storage directly via a competitive request for proposals. SDG&E, among other parties in this proceeding, indicated in opening comments that the utility has the responsibility for planning and operating the distribution system. Some of the potential applications for distribution level energy storage systems are to improve reliability, provide system capacity, distribution capacity deferral and renewables smoothing. Based on the nature of these applications, the energy provided by the energy storage systems must be delivered in a

¹⁸ Comments of the California Independent System Operator Corporation on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets Dated July 3, 2013 at Page 3.

¹⁹ Ibid at Page 4.

²⁰ Comments of the Utility Reform Network on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Date July 3, 2013 at Page 2.

²¹ Opening Comments of Southern California Edison Company on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting dated July 13, 2013 at Page 3.

timely fashion, in specific locations, with sub-second control and with a high level of certainty. Non-performance of third party energy storage systems could lead to significant reliability issues.

Several parties provided comments to the ACR supporting this position. SCE correctly noted that “utilities have the sole responsibility and obligation to ensure the safe and reliable delivery of power at the local level. Accordingly, a utility is responsible for operating its own electric distribution grid, including... owning, controlling, operating, managing, maintaining, planning, engineering, designing, and constructing its own electric distribution grid.”²² SCE concluded that “utilities have the right to own and operate the distribution assets that comprise the distribution grid which will allow utilities to facilitate the deployment of distribution technologies encouraged by the Commission such as distributed generations. Energy storage assets that provide a distribution reliability function are part of the distribution grid and are distribution assets that should be owned by the utility that provides distribution services.”²³

PG&E recommended “the ACR should be modified to clarify that the Commission is not intending for third parties to own and operate storage projects that perform a utility distribution reliability function. Any such entity would be a public utility. There has been no evaluation in this proceeding of the implications of comingling ownership and responsibility of the distribution system.”²⁴ Snohomish PUD supports “additional flexibility in allowing procurement among use-case ‘buckets’ of energy storage and not limiting the utilities to a percentage of utility-owned storage proposals”²⁵. The Green Power Institute also pointed out issues in the ACR related to ownership limitations by the IOUs. In particular, the Green Power Institute stated, “we believe

²² Opening Comments of Southern California Edison Company on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting dated July 13, 2013 at Page 9.

²³ Ibid.

²⁴ Pacific Gas and Electric Company’s Comments on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2013 at Page 4.

²⁵ Comments of Public Utility District No. 1 of Snohomish County at Page 5.

that the 50 percent restriction on utility ownership of storage installations that is part of the proposal in the Assigned Commissioner’s Ruling should be removed”²⁶

With regard to customer level energy storage, SDG&E pointed out in opening comments that there are already companies competing in this space. The Commission should give time for the market to develop by implementing a supportive unbundled cost-based rate design for residential customers. SCE also correctly pointed out that “energy storage remains a new and emerging technology. It is not clear whether an end-use customer would be willing to take the technology and performance risk by investing in a storage device. Customers may prefer that a third party or a utility own and operated such Behind The Meter storage, even if it resides on the customer premises. Because the ownership models for customer-sited storage are still untested, it is imperative that the Commission allow flexibility in ownership models”²⁷. SDG&E agrees that IOUs should have the right to participate in customer level energy storage systems if that is the most cost-effective solution for customers and best enables market growth at this early stage. As with other customer-side Smart Grid solutions such as in-home displays, third parties may find partnering with a utility an easier way to sell products to consumers. Additional benefit streams may be realized by incorporating demand response (DR) functionality with premise-based storage. Appropriate protections regarding utility participation in these fledgling markets to ensure fair competition have been developed in other areas and could be implemented in this market as well.

²⁶ Comments of the Green Power Institute on the ACR’s Ruling Proposing Storage Procurement Targets Dated July 3, 2013 at Page 4.

²⁷ Opening Comments of Southern California Edison Company on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting dated July 13, 2013 at Page 10.

SDG&E respectfully recommends to the Commission that IOUs should be able to own up to 100% of distribution and transmission level energy storage and able to participate in customer level energy storage if that is the solution that customers choose.

4. *Residential and Small Commercial Rate Reform is Critical for Customers to Capture the Value of Energy Storage and Achieve a Sustainable Mass Deployment of Energy Storage Systems*

The current residential and small commercial rate structures are not based on unbundling of services and cost causation. These rates are tied to energy consumption ignoring demand, reliability and power quality required by residential customers. As a result, storing energy for later use provides no incentive for residential customer under the existing rate structure. On the other hand, commercial and industrial (C&I) rate design is not only based on energy consumption but also based on demand and capacity charges. This framework allows for C&I customers to monetize various types of values offered by energy storage systems.

Sunverge provided a similar perspective in opening comments. Sunverge stated that “today, residential customers receive an ‘all-in’ energy rate that combines the costs of distribution and reliability with electric commodity services. Due to the nature and costs of various storage technologies, some solutions are more cost effective at shifting energy and some solutions are more cost effective at offsetting demand”²⁸. Sunverge also mentioned that “when a Net Energy Metering residential customer obtains an electricity commodity credit for exporting generation to the grid, the bill credit they receive includes the costs utilities incur to provide them with distribution and reliability services. That inherently hurts the value proposition for storage because it means the customer is receiving services storage could provide, but for free. A customer that receives electricity storage services for free from their utility will not be willing to

²⁸ Opening Comments of Sunverge Energy, Inc. on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Pages 3-4.

pay actual market value for distributed energy storage technologies. As a result, existing rate design is stifling innovation in potential new distributed storage technology markets”²⁹.

Sunverge recommended that the Commission “coordinate the exploration of unbundling residential rate structures to encourage customer management of demand during peak periods with storage solutions that are co-located with solar behind the utility electric meter”³⁰. SDG&E agrees with this recommendation. The residential and small commercial storage market is being undermined by rate design that obliterates price signals that could otherwise facilitate the use of storage by residential and small commercial customers.

SDG&E respectfully recommends the Commission adopt the rate design proposals in R.12-06-013 for unbundling of services and cost causation for residential and small commercial rates in order to facilitate the deployment of energy storage systems among all customers.

5. *It Is Premature and Inadequate to Adopt Any Cost-Effective Model At This Point.*

SDG&E previously indicated in opening comments that the Commission has expended considerable effort to assess existing cost-effectiveness models. Significant progress has been achieved by the Commission, IOUs and interested third parties on this topic. However, substantial additional work is required in this area to understand the impact of the preliminary results of the cost-effective models for setting any procurement targets at this point.

This position is supported by Commissioner Peterman’s comments during the all-party meeting held on June 25, 2013 that the Commission will not make factual findings related to storage cost-effectiveness models and has not endorsed any cost-effectiveness models.

Numerous parties provided additional comments supporting this position. For example, PG&E concluded that “the EPRI and DN KEMA models provide illustrative examples of the categories

²⁹ Ibid at Page 4.

³⁰ Ibid at Page 4.

of benefits and cost in the valuation of energy storage projects”³¹. However, “many of the input assumptions may not be accurate and do not have a broad consensus of stakeholders participating in this proceeding”³². SCE concluded that “the cost-effectiveness models results reported thus far are for illustration only and may not be used to support any finding of fact or justify any policy determination”³³. DRA also concluded that “the EPRI and KEMA models are not mature enough, and have not been scrutinized sufficiently, to be used for setting targets or to serve as the only tool the IOUs rely upon to decide whether to procure cost-effective storage”³⁴. The IEP stated that “IEP would not recommend building a program based on the cost-effectiveness models developed to date”³⁵. The Energy Producers and Users Coalition stated that “the EPRI and DNV-KEMA Reports are ultimately unreliable and cannot provide a basis for additional procurement solicitation targets”³⁶. The Energy Storage Association “agrees with Commissioner Peterman that the cost-effectiveness models developed in connection with this proceeding are only preliminary and may require further refinement”³⁷. TURN also stated that “the Commission should thus not rely on these studies, and the promise for cost-effective technologies as presented in the studies, in setting the energy storage targets”³⁸. Calpine Corporation provided the following perspective “cost-effectiveness studies performed by EPRI and KEMA do not demonstrate the cost-effectiveness of storage. Both studies are based on a series of overly

³¹ Pacific Gas and Electric Company’s Comments on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2013 at Page 17.

³² Ibid.

³³ Opening Comments of Southern California Edison Company on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting dated July 13, 2013 at Page 4.

³⁴ Comments of Division of Ratepayers Advocates on the Assigned Commissioner Ruling on Storage Targets Dated July 3, 2013 at Page 9.

³⁵ Comments of the Independent Energy Producers Association on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Page 12.

³⁶ Comments of the Energy Producers and Users Coalition on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Page 7.

³⁷ Comments of the Electricity Storage Association on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2013 at Page 5.

³⁸ Comments of the Utility Reform Network on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms Dated July 3, 2013 at Pages 5-6.

optimistic assumptions, including: (i) estimated storage costs that are too low, (ii) inflated projections of regulation prices and of the ability of storage to capture those prices, and (iii) the presumption that storage will have a high capacity value”³⁹.

SDG&E recommends that the Commission continue working with IOUs and interested parties on the assessment of cost-effectiveness models and the implications to the proposed targets.

In addition to the above positions, PG&E disagreed with the requirement in the ACR which states that “the ACR requires each utility to present the results of any energy storage solicitation based on a cost-effectiveness analysis using not only its own model but also the models being developed by the Electric Power Research Institute (EPRI) and DNV KEMA in this proceeding. This proposed requirement is redundant, costly and inefficient. The ACR should be modified to eliminate it”⁴⁰. SDG&E agrees with this recommendation and respectfully recommends to the Commission to adopt the proposed change.

Lastly, SDG&E does not support adoption of additional cost-effectiveness models at this time. The Clean Coalition in opening comments stated to “suggest a Full Cost and Value Accounting approach for the Commission and stakeholders to determine cost-effectiveness. Under this approach, standard value pricing figures are determined, and made public for each service that storage technologies can provide. Developers then bid their projects based on the standard value pricing, which by definition is cost-effective”⁴¹. SDG&E recommends rejecting this proposal for several reasons. First, the Clean Coalition does not provide any analysis related to their proposal. Second, any cost-effectiveness models should be discussed and assessed in the

³⁹ Comments of Calpine Corporation on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets Dated July 3, 2013 at Pages 2-3.

⁴⁰ Pacific Gas and Electric Company’s Comments on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2013 at Page 8.

⁴¹ Clean Coalition Opening Comments on Assigned Commissioner Ruling Dated July 3, 2013 at Page 3.

Energy Storage OIR prior for consideration of a potential adoption. Third, the proposed model by Clean Coalition should be compared side-by-side with the models from EPRI and DNV KEMA in order to identify pros and cons of the proposal against other models. Based on these reasons, SDG&E respectfully recommends to the Commission to do not adopt the proposal made by the Clean Coalition.

6. *Bid Information Should Be Kept Confidential According to Decision 06-06-066*

SDG&E agrees with the recommendation made by PG&E regarding confidentiality provisions. PG&E recommended “that the ACR be modified so that it does not deviate from the confidentiality provisions adopted by the Commission in D.06-06-066, which adopted rules governing the treatment of confidential documents, information and data submitted to the Commission in formal proceedings. Among other things, it provides that the terms, conditions and pricing of bids submitted in utility RFOs will be afforded confidential treatment for three years”⁴². SCE similarly stated that “any rules addressing the confidentiality of bid data in competitive solicitations must be consistent with D.06-06-066 and the confidentiality matrix contain therein”⁴³. SDG&E agrees with these recommendations and respectfully recommends the Commission to revise the ACR to adopt these changes.

⁴² Pacific Gas and Electric Company’s Comments on Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting Dated July 3, 2013 at Page 10.

⁴³ Opening Comments of Southern California Edison Company on the Assigned Commissioner’s Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting dated July 13, 2013 at Page 24.

III. CONCLUSION

For the reasons set forth herein, the Commission should adopt Energy Storage measures in accordance with the above and proposed recommendations in the opening comments of SDG&E submitted July 3, 2013.

Respectfully submitted,

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