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 OF THE ALLIANCE FOR RETAIL ENERGY MARKETS, SAM'S WEST, INC. AND WALMART STORES, INC. TO COMMENTS ON RULING PROPOSING PROCUREMENT TARGETS

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The Alliance for Retail Energy Markets [1] ("AReM"), Sam's West, Inc. and Walmart Stores, Inc.[2] (jointly referred to herein as "Direct Access Parties") submit this reply to comments filed July 3, 2013, in accordance with the *Assigned Commissioner's Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting* ("Ruling"), issued on June 10, 2013 by Commissioner Carla J. Peterman. The Direct Access Parties provide reply in the requested format on the specific questions listed in the Ruling [3] and discussed at the All-Party Meeting held on June 25, 2013.

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[1] The Alliance for Retail Energy Markets is a California non -profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

[2] Walmart has both bundled and direct access load in California. Walmart plans to procure 7 billion kWh of renewable energy globally by December 31, 2020 (an increase of over 600 percent versus 2010) and will accelerate energy efficiency with a goal to reduce the kWh/sq. ft. energy intensity required to power its buildings around the world by 20 percent versus 2010.

[3] Ruling, p. 22.

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I. REPLY

Question a. Please comment on this proposal overall, with emphasis on the proposed procurement targets and design.

1. Targets are not appropriate at this time; energy storage must be cost-effective to be procured.

A number of diverse parties, including the Marin Energy Authority ("MEA"), [4] Division of Ratepayer Advocates ("DRA"), [5] San Diego Gas & Electric Company (" SDG&E"),[6] and the Energy Producers and Users Coalition (" EPUC")[7] echo the comments of the Direct Access Parties that the Commissioner should not establish targets for procurement of energy storage at this time. These parties argue that energy storage technology has not matured to the point where such devices are readily available at reasonable prices to load-serving entities ("LSEs"), especially those without access to ratepayer funding. Many parties, including Pacific Gas and Electric Company ("PG&E "),[8] Southern California Edison Company ("SCE") [9] and the Center for Energy Efficiency and Renewable Technologies ("CEERT"),[10] also emphasize that, to comply with the law, energy storage must be cost-effective to be procured as a pre-condition. [11] The Direct Access Parties concur. The Commission should meet its statutory requirements by determining that it is not appropriate to set procurement targets at this time pursuant to Public Utilities ("P.U.") Code Section 2836(a)(1) and that this decision will be re-visited no later than October 1, 2016 as required by P.U. Code Section 2836(a)(3).

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[4] MEA, p. 3.
[5] DRA, p. 2.
[6] SDG&E, p. 4.
[7] EPUC, p. 3.
[8] PG&E, p. 2.
[9] SCE, p. 3.
[10] CEERT, p. 6.
[11] Public Utilities Code Sections 2836(a)(1) and 2836.2.

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2. There is no justification for increasing the level of the targets or making them mandates.

The California Energy Storage Alliance ("CESA"), [12] Megawatt Storage Farms, [13] and Sierra Club and the California Environmental Justice Alliance ("Sierra Club/CEJA") [14] ask to increase the overall target over and above the level proposed in the Ruling. In particular, CESA proposes to add at least 3,000 MW to the targets, plus an additional unspecified amount to cover projects that are procured but never become operational. [15] Moreover, Sierra Club/CEJA argues that the "target" should be a "mandate." [16] The Utility Reform Network ("TURN") also asks whether the proposal is intended to be a "target" or a "mandate." [17] The Direct Access Parties request that the Commission reject these proposals. As described above, cost-effectiveness has not been proven for energy storage, calling into question whether even a target is appropriate. Further, the relevant P.U. Code section makes no mention of setting "mandates," only "targets,"[18] Therefore, the Sierra Club/CEJA proposal would seem to overstep the boundaries of the current law and should be rejected.

3. Using energy storage for "grid reliability" requires neither IOU ownership nor cost recovery through transmission and distribution rates.

SCE,[19] as well as Shell Energy North America (US), L.P. ("Shell") [20] and Pilot Power Group, Inc.,[21] seem to be arguing that the IOUs should be responsible for all energy storage, because it is used for "grid reliability," with the associated costs recovered through transmission and distribution ("T&D") charges. "Grid reliability" is provided by all traditional generation

[12] CESA, p. 3.
[13] Megawatt Storage Farms, p. 8.
[14] Sierra Club/CEJA, pp. 2, 12-14.
[15] CESA, p. 3.
[16] Sierra Club/CEJA, p. 2.
[17] TURN, p. 1.
[18] P.U. Code Section 2836(a)(1).
[19] SCE, p. 18.
[20] Shell, p. 3.
[21] Pilot Power, p. 9.

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units connected to the System as well as by non-traditional supplies, such as demand response and energy storage. These supplies are owned and controlled by multiple owners with their costs recovered through various mechanisms. Thus, performing a "grid reliability" function does not, by itself, dictate how costs must be allocated. In fact, the Commission has previously addressed cost recovery for a large energy storage facility, PG&E's Helms Power Plant, and authorized recovery through generation rates. In summary, proposals that restrict ownership or pre-assign cost recovery are unjustified and should be rejected.

Question b. **Comment on whether any of the projects proposed to count toward the procurement targets be excluded, or any additional projects included, and on what basis.**

A number of parties argue that the energy storage projects identified in the Ruling as already approved or underway should "count" toward meeting the applicable IOU's target. [22] As MEA[23] and Shell[24] have indicated, however, these particular projects have likely been funded by all ratepayers, including the customers of electric service providers ("ESPs") and community choice aggregators ("CCAs"), through non-bypassable charges (either T&D charges or EPIC). Thus, the MW amount associated with the energy storage cannot "count" against the IOU's target, because to do so would mean that the customers of the ESPs and CCAs would unfairly subsidize the IOU's procurement and pay twice for energy storage. [25] Instead, the associated MW values of any such projects deemed by the Commission to "count" must be allocated to all LSEs. One simple approach would be to take the MWs off the top of the statewide energy

[22] See, for example, DRA, pp. 3-4; CESA, pp. 13-14, Green Power Institute, p. 5, and SCE, pp. 3 and 13.
[23] MEA, p. 6.
[24] Shell, p. 6.
[25] The customers of the ESPs and CCAs would pay twice, because they are paying for the IOUs meeting part of their procurement targets through non-bypassable charges and also to the ESPs and CCAs for meeting their separate procurement targets.

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storage procurement targets with the remaining MWs allocated proportionally to the LSEs to set their targets.[26]

Question c. **Comment on how actual operational deployment should be defined for PIER- and EPIC-funded projects potentially eligible to count toward a utility's procurement target.**

As described in the answer to Question b above, the Direct Access Parties agree with MEA and Shell that energy storage projects funded by all ratepayers through non-bypassable charges, such as PIER- and EPIC-funded projects, should not "count" to meet a specific IOU's target. Instead, an alternative allocation method is required, such as taking the associated MW amount off the top of the total statewide target with the remaining target MWs allocated proportionally to the LSEs. However, the project should only "count" if the project remains operational after completing its RD&D phase, as recommended by SDG&E.[27]

Question e. **Comment on whether and to what extent utilities should be permitted flexibility in procuring among the use-case "buckets" (transmission, distribution, and customer-sited) of energy storage within one auction, and whether a minimum amount in each "bucket" must be targeted.**

Most parties agree with the Direct Access Parties that the "buckets" proposed for procurement targets for energy storage should be flexibly applied, if used at all.[28] Also, the meaning of the "Transmission," "Distribution," and "Customer" "buckets" is unclear and seems to be interpreted differently by the various parties. To ensure that any procurement targets are clearly specified, the Direct Access Parties support the recommendation of the California

[26] The Direct Access Parties propose a calculation method for determining each ESP's procurement target in their July 3, 2013 comments, pp. 7-8.
[27] SDG&E, p. 15.
[28] See, for example, SCE, p. 3, SDG&E, p. 5, Gravity Power, p. 5, and LSE/SEIA, pp. 3-4, Megawatt Storage Farms, p. 8.

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Independent System Operator ("CAISO") that each "bucket" name should simply refer to the interconnection level and not to the potential function of the energy storage facility.[29]

Question h. Comment on the options presented for ESPs and CCAs to either a) be required to procure an equivalent amount of storage projects commensurate with the load they serve or b) have their customers assessed the costs of the IOU procurement of energy storage projects through a cost allocation mechanism.

ESPs should meet their own procurement targets and non-bypassable charges should not apply.[30] In fact, if the Commission determines that an ESP is responsible for meeting its own energy storage procurement target, the Commission must also determine that the ESP's customers should be exempt from paying any non-bypassable charges associated with IOUs' procurement to meet the IOU's targets. With this preferred approach, each LSE has a designated target and must recover the costs from its own customers.

PG&E[31] and MEA[32] support ESPs and CCAs procuring to meet their own energy storage targets and oppose the application of the cost-allocation mechanism ("CAM"), with MEA noting the questionable legality of applying CAM for this purpose.[33] TURN supports the procurement option for ESPs and CCAs, but believes that CAM may be "more reliable" without supporting why this may be the case.[34] SCE[35] and SDG&E[36] argue that CAM is the preferred approach, and, in fact, SCE offers a Finding of Fact that would likely impose CAM treatment for all energy

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[29] CAISO, p. 3.
[30] Such non-bypassable charges include T&D charges, cost allocation mechanism ("CAM") or similar charges, and stranded costs recovered through the Power Charge Indifference Adjustment ("PCIA").
[31] PG&E, p. 16. PG&E also proposes that ESPs and CCAs must pay a share of the Commission's admin istration costs. The Direct Access Parties oppose this recommendation and kno w of no comparable payment by the IOUs when they procure to meet targets.
[32] MEA, pp. 5-6.
[33] MEA, p. 9.
[34] TURN, p. 5.
[35] SCE. pp. 4, 20-21.
[36] SDG&E, p. 17.

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storage projects.[37] SCE also enumerates a parade of horribles if the Commission allows ESPs and CCAs to procure on their own, including the need to re-litigate the ESP/CCA targets every year as load migrates, the potential for "random" deployment of energy storage by the ESPs/CCAs, and lack of economies of scale for the ESPs/CCAs.[38] As a remedy, SCE offers that it is "reluctantly willing to step into the procurement agent role" for energy storage.[39]

SCE's concerns are totally unfounded and should be rejected. ES Ps have a proven track record in consistently meeting procurement obligations established by the Commission, specifically Resource Adequacy and the Renewable Portfolio Standards. Load migration has been successfully accommodated in these programs. Moreover, as the record in this proceeding demonstrates, energy storage comes in a variety of sizes and technologies. ESPs intend to work closely with their customers to find the right fit for their energy management needs, as previously outlined,[40] and SCE's suggestion that ESPs/CCAs are unable or unqualified to do so is myopic at best.

SCE's discussion also includes several incorrect assertions about CAM and stranded cost recovery. First, SCE references statute and Commission decisions regarding CAM charges, but then refers to CAM as an "example" that achieves "bundled customer indifference." However, the bundled customer indifference principle is completely unrelated to the CAM, and instead refers to stranded cost recovery of IOU generation costs through the Competition Transition Charge ("CTC") and the PCIA.[41] Second, SCE asserts that CAM recovers the above-market costs of the procurement.[42] This is also incorrect. CAM recovers the net capacity costs of a

[37] SCE, p. 22.
[38] SCE, p. 18.
[39] SCE, p. 20.
[40] Direct Access Parties, pp. 8-9.
[41] SCE, pp. 20-21.
[42] SCE, p. 21.

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project. "Above-market costs" are recovered through stranded costs by applying CTC and PCIA. If CAM is charged for a project, the IOU is not allowed to recover stranded costs for the same project. Only one or the other can be charged to customers for a particular supply-side resource.

SDG&E argues that, if ESPs and CCAs are allowed to meet their own targets, the IOUs should have "full control to operate and dispatch" the ESP/CCA energy storage system.[43] Obviously, many parties other than the IOUs are fully capable of building, owning and operating energy storage systems and do so without command and control oversight by the IOUs.

The Direct Access Parties respectfully request that the Commission reject the proposals of SCE and SDG&E as unjustified, anti-competitive, and non-compliant with Assembly Bill 2514, which requires that procurement targets be set for all LSEs and includes no provision allowing IOUs to procure on behalf of ESPs and CCAs.

Finally, the fact that some IOUs serving small numbers of customers in CA would get an exemption is troubling. [44] However, Pilot Power's proposal to exempt small ESPs from the requirement because IOUs serving small numbers of customers in CA would get an exemption is equally troubling. [45] The Direct Access Parties generally oppose exemptions because of the potential they create for increased levels of "on-behalf-of" procurement by the IOUs, and therefore believe that, if there is a need to address compliance issues by small ESPs, other avenues should be investigated.

[43] SDG&E, p. 16. SDG&E also recommends that energy storage costs be added to departing load charges and that ESP and CCA customer should pay for deferral of distribution costs or reliability benefits regardless whether the ESP/CCA has its own procurement target to meet. As the Direct Access Parties thoroughly addressed in the July 3rd comments, if each LSE meets their own targets, the costs of meeting those targets are borne by LSE's customers and are not subject to socialization through non-bypassable charges. (July 3 Comments pp. 10-11).

[44] P.U. Code Section 2838.5(a) exempts electrical corporations (*i.e.,* IOUs) with fewer than 60,000 customers from meeting energy storage procurement targets set by the Commission.

[45] Pilot, p. 13.

II. CONCLUSION

The Direct Access Parties respectfully request that the proposed decision in this proceeding adopt the following policies:

- Set no procurement targets for LSEs at this time and mandate that energy storage must be determined to be cost-effective *before* such targets are appropriate.
- If targets are set, however:
  - Set modest targets no greater than those outlined in the Ruling, require that only cost-effective energy storage be procured, and allow off-ramp rules to apply to all LSEs as needed.
  - Set procurement targets for all LSEs and reject procurement by the IOUs on behalf of ESPs and CCAs with associated non-bypassaable charges.
  - Find that, because all LSEs are meeting their own energy storage procurement targets, each LSE's associated costs must be recovered from their own customers; thus, the IOUs' associated costs will not be subject to recovery through non-bypassable charges, such as T&D rates, CAM, or stranded cost recovery, and must be recovered solely from their bundled customers.
  - Find that the pre-approved IOU energy storage projects identified in the Ruling that were paid for through socialized costs (*e.g.*. T&D rates or EPIC funding) and are determined to "count" toward the targets may not apply to a particular IOU's target, but must be allocated to all LSEs, such as by reducing the overall statewide targets for all LSEs.

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- Allow flexibility in meeting the procurement targets, particularly as they apply to ESPs, as described herein and in the Direct Access Parties' July 3rd Comments.[46]

- Avoid creating exemptions for small ESPs that would increase the potential for "on-behalf-of" procurement by the IOUs.

Respectfully submitted,

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[46] Direct Access Parties, pp. 7-10.

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