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)

COMMENTS OF THE ENERGY PRODUCERS AND USERS COALITION ON THE PROPOSED DECISION IN R.10-12-007

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The Energy Producers and Users Coalition (EPUC)[1] submits these comments in response to the Proposed Decision (PD) in Rulemaking (R.) 10-12-007 issued on September 3, 2013.

I. SUMMARY OF POSITION

A common cost-effectiveness methodology across the utilities allows for better evaluation of potential energy storage projects, and protects ratepayers from inefficient utility procurement. The Commission should wait to issue this Proposed Decision establishing targets until after it has approved a common energy storage cost-effectiveness methodology across the utilities. Recognizing, however, the Commission's determination to expeditiously set targets in order to meet its statutory deadline, the Commission should, as an alternative, require the utilities to adopt a common cost effectiveness methodology in the January 1, 2014 Solicitation Plans. Further, the Commission should allow an automatic

[1] EPUC is an ad hoc group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, Chevron U.S.A. Inc., ExxonMobil Power and Gas Services Inc., Phillips 66 Company, Shell Oil Products US, Tesoro Refining & Marketing Company LLC, THUMS Long Beach Company, and Occidental Elk Hills, Inc.

100% deferral of the 2014 procurement targets should the Commission fail to approve a common cost effectiveness methodology in advance of the December 2014 solicitations.

II. THE COMMISSION SHOULD REQUIRE A COST-EFFECTIVENESS METHODOLOGY COMMON TO ALL UTILITIES

The PD states that it believes that the energy storage targets and framework "*will encourage the development and integration of cost-effective energy storage systems.*"[2] The Energy Storage targets are designed to spur advancement of the market and encourage investment in energy storage technology. While this is a noble goal, it should not come at the expense of the ratepayers. While the Commission is determined to adopt targets for energy storage, it must also adopt strong cost-effectiveness methodologies that are common to all utilities to ensure that ratepayers are not unduly harmed by procurement of cost-inefficient or infeasible projects. A common, Commission-approved methodology is the only means of making accurate comparisons of storage projects across technologies and utilities.

The PD states that the Commission "*shall allow the IOUs to propose their own methodology to evaluate the costs and benefits of bids.*"[3] The IOUs are instructed to use the same range of costs and benefits identified in the Electric Power Research Institute (EPRI) and by DNV KEMA Energy and Sustainability (DNV KEMA) cost-effectiveness methodologies even though these

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2 Proposed Decision (PD) at 9.
3 PD at 59

methodologies are expressly not adopted.[4] The PD goes on to also direct the utilities to evaluate solicitation bids using "*a consistent evaluation protocol for least-cost, best-fit analysis, as described in the Storage Framework, to allow comparison across utilities, bids and use cases.*"[5]

The Commission should clarify the language of the PD and the Storage Framework to require not only consistent bid evaluation methodologies across the utilities but also a common cost-effectiveness methodology. According to the Storage Framework, the least-cost, best fit analysis examines both the "*full range of benefits and costs*" and a "*consistent evaluation protocol*" including a common dispatch model and "*a consistent set of assumptions for valuing storage benefits*."[6] The Storage Framework separates the cost-effectiveness calculation and the evaluation protocol, but includes in the evaluation protocol common assumptions for valuing cost and benefits of storage.[7] Further, each of the utilities' cost-effectiveness methodologies must use the same costs and benefits used in the DNV-KEMA and EPRI methodologies.[8] Based on this framework it seems only logical for the cost-effectiveness methodology to be common across all utilities, but it is not clear from the language of the PD or the Storage Framework that that is required. The language of the PD should be revised to clarify that the cost-effectiveness methodology that is submitted by the utilities in their January 1, 2014 filing is common to all utilities.

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4 PD at 59.
5 PD at 59.
6 PD, Attachment A at 6.
7 PD, Attachment A at 6.
8 PD at 59.

A common, Commission-approved methodology is the only means of making accurate comparisons of storage projects across technologies and utilities. Without an accurate means of determining cost-effectiveness, the use of procurement targets may result in an inefficient use of ratepayer funds, especially if the targets are set higher than the market would otherwise sustain. Common bid evaluation protocols are not enough; without a common cost-effectiveness methodology it is impossible to "*allow comparison across utilities, bids and use cases"* as the PD requires.[9]

III. THE COMMISSION-APPROVED COST-EFFECTIVENESS METHODOLOGY SHOULD INCORPORATE LONG-TERM CONSIDERATIONS

The PD acknowledges that the purpose of the targets is to encourage the development of the energy storage technology.[10] This should not result in the utilities procuring projects that are cost inefficient in order to meet their procurement targets. There are measures of long-term impact that the Commission can and should require to protect against inefficient procurement, and the resulting rate impact on customers. SCE has initiated its Request for Offers (RFO) for 50 MW of Storage pursuant to the Long Term Procurement Plan, and the Commission should consider integrating elements of SCE's approach into the Energy Storage Procurement Framework.[11]

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[9] PD at 59.

[10] PD, Conclusion of Law 5, 66.

[11] PD at 27. *See* SCE 2013 Request for Offers: Local Capacity Requirements Transmittal Letter, September 12, 2013 (SCE Transmittal Letter).

First, SCE will only consider projects with a remaining life of at least 30 years.[12] A 30-year useful life better matches the characteristics of conventional resources. Requiring a longer useful life encourages long term investment in storage and the development of storage technologies with longer lives. It would also assist the utilities in making the most cost-effective decisions for their procurement portfolio overall, limiting storage spending to long term investments.

Second, SCE is utilizing shadow cost curves to "*represent a forecast of total costs required to develop the respective product*."[13] According to SCE, using shadow cost curves protects the utility against accepting an uncompetitive bid and enables the utility to determine if procurement of a product should be deferred to a later time.[14] Shadow cost curves also "*allow for comparison against alternatives that may not have explicitly bid into the New LCR RFO*."[15] The shadow cost curve tool helps the utility to determine when a storage project will be cost-effective, and protects the utility from premature and inefficient investment in new technologies. Since energy storage is a nascent technology, utilizing shadow cost curves may help the utilities to evaluate solicitations that may have only limited participation.

The Commission should, at a minimum, encourage the utilities and the Energy Division to consider adopting both of these measures when adopting cost-effectiveness methodology and bid evaluation protocols.

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12 SCE Transmittal Letter at 7.
13 SCE Transmittal Letter at 19.
14 SCE Transmittal Letter at 19.
15 SCE Transmittal Letter at 19.

IV. THE COMMISSION SHOULD ALLOW THE UTILITIES TO DEFER 100% OF TARGETS UNTIL A COST EFFECTIVENESS METHODOLOGY IS APPROVED

The Commission must approve the common methodology before the first solicitation. Unless and until the Commission approves a common cost-effectiveness methodology, the targets established under this program beyond the current utility procurement plans remain speculative and unjustifiable, and the Commission should allow a deferral of the entire target for the first year.

The PD currently allows the utility to defer up to 80% "*of its procurement targets with an affirmative showing of unreasonableness of costs based on the approved evaluation methodology.*"[16] The IOU must submit a Tier 3 Advice Letter to the Commission demonstrating that the deferral is necessary.[17] EPUC appreciates the flexibility that the PD gives the utilities, but argues that more flexibility may be necessary for the first solicitation RFO.

The bid evaluation protocols and bid evaluation methodologies are key protections against unwise and inefficient procurement. It is of the utmost importance that they are in place before the first solicitation. The PD directs the Utilities to provide a solicitation plan for the December 2014 RFO by January 1, 2014.[18] If the Commission approves the PD on October 3, this gives the Utilities and the Energy Division staff less than three months to develop bid evaluation protocols and cost-effectiveness methodologies. This deadline is likely to prove difficult to meet. Additionally, the Commission must address and approve the

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16 PD, Attachment A at 7.
17 PD, Attachment A at 7.
18 PD, Ordering Paragraph 3, at 69.

Applications before the first solicitation, a process that will be more time consuming than in later solicitations.

In the unlikely event that the Commission cannot settle on a common cost-effectiveness methodology in advance of the first RFO, the Commission should automatically provide for 100% deferral of the 2014 storage targets. This provision would provide the utilities protection from entering into solicitation without the proper evaluation tools and protect ratepayers from unwise investments.

V. CONCLUSION

For all of the foregoing reasons, EPUC recommends that the Commission require a common cost effectiveness methodology for energy storage. If it does not establish a common methodology before the first solicitation, the Commission should provide for 100% deferral of the 2014 storage target.

Respectfully submitted,

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