

**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)

**OPENING COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E)
CONCERNING PROPOSED DECISION**

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission” or “CPUC”), San Diego Gas & Electric Company (“SDG&E”) respectfully submits these opening comments concerning the Proposed Decision of Commissioner Carla Peterman dated September 3, 2013, entitled *Decision Adopting Energy Storage Procurement Framework And Design Program* (the “PD”).

I. COMMENTS

A. The Due Date for the Application for the First Solicitation Should Be Set for March 1, 2014

The PD sets the due date for the first application at January 1, 2014 with the first solicitation taking place on December 1, 2014. SDG&E requests that the due date for the application be set for March 1, 2014.

Setting a due date of March 1, 2014 is consistent with the requirement for future solicitations which sets the due date for the application at nine months prior to the solicitation. Additionally, as this will be the first application for the program, the utilities should be given sufficient time to consider all the issues and challenges, formulate a least-cost best-fit methodology and ensure all elements of the solicitation application (updated table with estimates

for biennial procurement targets, references to system need, operational requirements, etc.) are addressed. It would not be prudent to rush on the first application which may result in shortcomings.

B. Rate Recovery

Although the PD sets targets for the deployment of storage technologies, the PD is silent as to how and where the costs from this deployment will be recovered. SDG&E requests clarity on how rate recovery will be treated for the program as a whole and for the various buckets – customer side, distribution and transmission.

SDG&E recognizes that there will be a degree of overlap between some of the procurement in this program and other existing programs. Where there is overlap, such as potentially with the customer side bucket and an existing program, such as funding from a demand response program, rate recovery may have been contemplated in the existing program. Additionally, if a portion of the procurement target is off-set by an existing energy storage project the rate recovery may already be contemplated.

That being said, a potentially large portion of the targets in this program will be procured through new solicitations. Those amounts procured via new solicitations will require rate recovery. To complicate matters, rate recovery treatment may be different depending on the bucket procured.

As an example, for distribution level projects, an energy storage system acquired for distribution system reliability should be treated similarly as other capital or operating expenditures for distribution reliability. For those systems, it would make sense to have the costs rolled into the utility's distribution rate. Revenues for distribution rates are set in the utilities

General Rate Cases. However, current rates did not include revenues for the use of storage in the amounts anticipated in this PD. The PD is silent on this.

For systems connected to the transmission system and performing a transmission function it is unclear at this time how, or if, this could be included in transmission rates at the Federal Energy Regulatory Commission (“FERC”). The Commission must provide clarity as to how these kinds of costs will be recovered pursuant to CPUC jurisdictional authority. Storage that may be added to address reliability issues, like local capacity requirements, should be subject to the cost allocation mechanism that the Commission applies to generation used for the same reason.

SDG&E requests that the Commission provide certainty on these issues now rather than later in order to ensure adequate and transparent rate recovery.

C. Cost-Effectiveness

The PD and Assembly Bill 2514 both acknowledge that energy storage systems should be viable and cost-effective.¹ The PD further states, in Conclusion of Law 29, that “[a]ny actual findings of cost-effectiveness should only be done for a specific project, based on actual projects inputs.”²

While these statements provide for a general concept that energy storage systems should be cost effective, SDG&E requests confirmation of certain assumptions.

First, SDG&E requests confirmation that customer-side procurement which is procured through an existing program will use the cost-effectiveness methodology which has already been established, or will be established, in that program. For example, Energy Efficiency has a

¹ Proposed Decision Adopting Energy Storage Procurement Framework And Design Program at Page 3, at Page 6, at Page 64 – Finding of Fact 1, at Page 65 – Finding of Fact 13.

² Proposed Decision Adopting Energy Storage Procurement Framework and Design Program at page 67

Standard Practice Manual to specify cost-effectiveness tests. Those tests should remain intact and not be modified by this PD.

Second, if a least-cost best-fit (“LCBF”) methodology is used for certain procurement, such as distribution system reliability or compliance with state policy, then LCBF should be considered as an acceptable methodology to prove cost-effectiveness. The utility should be allowed rate recovery of storage installed under this program if it is LCBF.

As technology continues to progress, it is likely that prices will decline over time and, in hindsight, a prior utility storage investment could appear to be excessively costly at some point in the future. Under these circumstances, it is critical that the Commission adopt a means of ascertaining cost effectiveness, both to aid in utility analysis and to aid in the Commission’s consideration of proposed storage contracts. The Commission should make it clear that the determination of cost-effectiveness must be made on the basis of the facts that exist at the time a procurement decision is made, and cannot be made subsequently on the basis of facts that were not known at the time.

Regardless of whether the Commission is able to specify a cost-effectiveness model at this time, the PD should specifically conclude that a utility that procures storage pursuant to the schedule and rules adopted herein cannot be disallowed cost recovery based on changed circumstances that occur subsequently such as a future decline in storage prices.

Finally, and importantly, the PD allows for up to 80% of the solicitation target to be deferred if there is a showing that cost-effective storage cannot be procured. This leaves 20% that must be procured regardless of it being cost-effective. The Commission must ensure cost recovery of the cost for the 20% since the utility has no discretion to not procure.

D. Clarification is Needed on Whether Over-Procurement in One Solicitation is Subtracted from the Subsequent Solicitations (Banking)

SDG&E seeks clarity on how over-procurement in a solicitation will be treated. SDG&E believes the spirit of the decision is to reach a minimum number of MWs of storage by 2020. The flexibility already provided in the decision allows investor owned utilities (“IOUs”) to procure energy storage at a reasonable rate for the benefit of its customers by delaying procurement with cause or adjusting bucket quantities.

SDG&E believes that this flexibility should also apply to over-procurement. If SDG&E is able to procure additional, cost-effective storage early on in the process then that amount should offset future solicitation targets.

It would be detrimental to the program and cause delays in the procurement of energy storage systems if IOUs were discouraged from procuring energy storage systems sooner if their solicitation target was already met.

E. Certain Aspects of the Energy Storage Procurement Program Do Not Lend Themselves to the Inclusion of an Independent Evaluator or Procurement Review Group

The PD requires that each IOU employ an independent evaluator (“IE”) to assess the solicitation process. It further requires the use of the Procurement Review Group (“PRG”). SDG&E believes that it may not be appropriate to include the IE and PRG in all aspects of the Energy Storage Procurement Program.

The Energy Storage Procurement Program proposed in the PD is a broad program which touches transmission level procurement, distribution level procurement and customer side procurement. These three buckets have numerous use cases that procurement of energy storage systems can be applied to.

While SDG&E agrees that an IE and PRG are beneficial in certain areas, such as procurement of wholesale generation type projects, it does not believe the inclusion is necessary for customer side procurement or traditional transmission or distribution system reliability procurement.

Procurement of systems and devices for distribution system reliability have not traditionally used an IE or gone before the PRG but rather have been approved through a special application or General Rate Case. Similarly, customer side projects have not traditionally used that process.

SDG&E believes that while an IE and PRG may be used for certain aspects of the Energy Storage Procurement Program it should not be used for all. SDG&E seeks clarity in the decision that the intent is not to change the traditional process of procurement of distribution system reliability products nor customer side products. Therefore, an IE and PRG shall not be required for those areas of procurement.

F. The Olivenhain-Hodges Pumped Hydroelectric Storage Facility (Lake Hodges) Should Count Towards SDG&E's Procurement Targets

The PD allows for the inclusion of pumped hydro up to 50 MWs to be eligible for this program.³ SDG&E is under contract with a pumped hydro facility which qualifies under the requirements for pumped storage established in the PD and it should count towards SDG&E's procurement targets.

The Olivenhain-Hodges Pumped Hydroelectric Storage Facility ("Lake Hodges") is owned by the San Diego County Water Authority.⁴ The bilateral power purchase agreement

³ Proposed Decision Adopting Energy Storage Procurement Framework and Design Program at Page 66 - Conclusions of Law 9

⁴ Unit 1 went on-line in August 2011 and Unit 2 went on-line in August 2012

(“PPA”) was executed on January 29, 2004 and was approved by Commission Decision (“D.”)04-08-028.

D.04-08-028 has already concluded that, “It is reasonable and in the public interest to approve the Hodges Agreement” and “It is reasonable that SDG&E recover the energy and related costs through its ERRRA account.”⁵

This project and related quantity should count towards SDG&E’s procurement target for this program. Additionally, SDG&E may identify additional projects via its pre-solicitation applications if they fit the requirements for inclusion set out by the PD.

II. CONCLUSION

For the reasons set forth herein, the PD should be revised to incorporate the modifications detailed above.

Respectfully submitted this 23rd day of September, 2013.

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⁵ Decision 04-08-028 Opinion Granting Approval for San Diego Gas & Electric Company to Enter Into Electric Resource Contract With The San Diego County Water Authority at Page 10

**APPENDIX OF
PROPOSED FINDING AND CONCLUSIONS**

Conclusions of Law

27. PG&E, SCE and SDG&E should be directed to file an application on or before ~~January 1, 2014~~ March 1, 2014 that would contain a proposal for the first energy storage solicitation.

Ordering Paragraphs

3. On or before ~~January 1, 2014~~ March 1, 2014, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall file an application containing a proposal for the first energy storage solicitation, as described in Section 3.d. of Appendix A of this decision. The solicitation shall occur no later than December 1, 2014.

8. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company ~~may~~ shall employ an independent evaluator to assess the competitiveness and integrity of certain aspects, such as wholesale generation, of its energy storage solicitation. The independent evaluator's report shall be submitted as part of the utility's Tier 3 advice letter requesting approval of contracts resulting from the solicitations.