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 PROPOSED DECISION

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September 30, 2013

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Pursuant to Rule 14.3(d) of the Commission's Rules of Practice and Procedure, 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 by parties on September 23, 2013 on the Proposed Decision ("PD") of Commissioner Carla J. Peterman, which was issued September 3, 2013. The PD establishes energy storage procurement targets for the investor-owned utilities ("IOUs") and other load-serving entities ("LSEs"), including electric service providers ("ESPs") and Community Choice Aggregators ("CCAs"). The Direct Access Parties reply to the comments of the IOUs and The Utility Reform Network ("TURN"), who are proposing modifications to the PD that are inconsistent with the applicable statute and would unduly advantage the utilities to the detriment of ESPs, CCAs and their customers. The Direct Access Parties urge the Commission to reject these proposals, as discussed below.

[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 compared to 2010.

I. THE IOUS' PROCUREMENT TARGETS ARE CONSISTENT WITH THE LAW AND APPROPRIATELY REFLECT THEIR EXTENSIVE SITING OPTIONS AND BROAD CUSTOMER BASES.

Pacific Gas and Electric Company ("PG&E") and TURN urge that the PD must be modified to impose "equivalent" procurement targets on ESPs and CCAs to those that are being imposed on the IOUs.[3] However, Assembly Bill ("AB") 2514 requires that the Commission determine a target for each LSE, not that each LSE have the same or an "equivalent" target.[4] Moreover, imposing a different target on ESPs is entirely consistent with established precedent, as was fully addressed by the Commission in the renewable portfolio standard ("RPS") proceeding. IOUs are able to deploy energy storage at a multitude of their *own* transmission and distribution substations, and have a larger captive customer base for Behind-the-Meter installations. Under the law and existing precedents, the Commission has proposed reasonable and rational targets for IOUs, ESPs and CCAs that are appropriate for the customers they serve.[5] Accordingly, PG&E's and TURN's modifications should be rejected.

II. THE PD SHOULD CLARIFY THAT EACH IOU'S COSTS SHOULD BE RECOVERED THROUGH GENERATION CHARGES.

Both Southern California Edison Company ("SCE") and San Diego Gas & Electric Company ("SDG&E") seek clarity on cost recovery for procurement of energy storage to meet their targets and uniformly propose that costs be recovered from all customers through non-bypassable charges.[6] SCE asserts that "clarity" can only be achieved by adopting its original proposal made in response to the Assigned Commissioner's Ruling ("ACR"),[7] including having the IOUs procure energy storage on behalf of the ESPs and CCAs and recover their costs through

[3] TURN's Comments, p. 3; PG&E's Comments, pp. 3-4 and Appendix, proposed Conclusion of Law No. 23, p. 3 and proposed Ordering Paragraph No. 5, p. 5.
[4] Public Utilities Code Section 2836(a)(1).
[5] PD, p. 43.
[6] SCE's Comments, pp. 4-5; SDG&E's Comments, p. 2-3.
[7] *Assigned Commissioner's Ruling Proposing Storage Procurement Targets and Mechanisms and Noticing All-Party Meeting* ("Ruling"), R.10-12-007, June 10, 2013.

transmission and distribution ("T&D") rates or through "an approach similar to the [Cost Allocation Mechanism]."[8] For its part, SDG&E suggests that recovery of costs through T&D rates is most appropriate. PG&E seeks cost recovery through the Cost Allocation Mechanism ("CAM") to be paid for by all customers, if the Commission fails to establish "equivalent" targets for all LSEs.[9]

The Direct Access Parties concur with the IOUs on one point -- that clarity of cost recovery is desirable. However, the proposals put forth by the IOUs are wholly inappropriate given the PD's determination that ESPs and CCAs will be responsible for meeting their own procurement targets. Instead, the Direct Access Parties recommend that clarifying language be added to the PD as follows:

> "Each IOU shall recover the costs to meet its energy storage procurement target through its generation rates."

Energy storage, whether sited at T&D substations or customer premises, fulfills generation functions and improves the reliability of the system. In fact, all traditional generation units connected to the system, as well as demand response and energy storage, provide reliability to the system. Performing a "reliability" function does not, by itself, dictate how costs must be allocated, as SCE asserts.[10] 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. SDG&E's Olivenhain-Hodges energy storage project also appears to be recovered through generation rates.[11]

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[8] SCE's Comments, pp. 4-5. See full discussion in SCE's Comments on ACR, July 3, 2013, pp. 17-22.
[9] PG&E's Comments, p. 5. Interestingly, this is an "about face" for PG&E, which previously *opposed* CAM treatment and *supported* ESPs and CCA having their own procurement targets to meet. See, PG&E's Comments on ACR, July 3, 2013, p. 16.
[10] SCE's Comments, p. 4.
[11] SDG&E's Comments, pp. 6-7.

Thus, there is Commission precedent for requiring energy storage costs to be recovered through generation rates. Moreover, this approach ensures that customers of one LSE do not pay for the procurement costs of another LSE. ESPs and CCAs have their own targets to meet and must recover their costs from their own customers. The IOUs must be required to do the same. It would be unfair, discriminatory and anti-competitive to require the customers of the ESPs and CCAs to *also pay* the IOUs for meeting the IOUs' separate targets through CAM, T&D rates or other non-bypassable charges. Moreover, as discussed in previous comments, application of CAM to energy storage procurement is questionable from a legal perspective. [12] In summary, imposing procurement targets on each LSE must carry with it clarity that each LSE will recover the costs to meet those targets from their own customers; in the case of the IOUs, this can only be achieved by including the costs in their generation rates, and not including them in the T&D rates or some other non-bypassable charge. The PD should be modified to make that requirement clear.

III. ENERGY STORAGE PROJECTS PAID FOR BY *ALL* CUSTOMERS ARE APPROPRIATELY ALLOCATED TO THE LSES SERVING THOSE CUSTOMERS.

Both SCE and SDG&E propose additional projects they wish to "count" toward meeting their energy storage procurement targets.[13] However, none of the IOUs address the concern of the Direct Access Parties that energy storage procurement projects paid for by ALL customers must be allocated to the LSEs serving those customers. [14] As the Direct Access Parties have noted repeatedly,[15] most of the projects cited by the IOUs and in the PD [16] as candidates for "counting" have been funded by all ratepayers, including ESP and CCA customers, through non-bypassable

[12] See comments on ACR by: AReM/Sam's Club/Walmart, p. 5 and Marin Energy Authority, pp. 5-6.
[13] SCE's Comments, pp. 7-8; SDG&E's Comments, p. 7.
[14] SDG&E's proposal to "count" a pumped storage plant would not be allocated under this proposal, because the costs appear to be recovered from SDG&E's customers through generation rates.
[15] See discussion of this issue in AReM/Sam's Club/Walmart's Comments, pp. 5-7.
[16] The specific projects are listed or otherwise discussed in the PD in Section 4.5.1 on pp. 27-29 and 31.

charges, either in T&D rates or through the separate Electric Program Investment Charge ("EPIC"). Any project being paid for by ESPs' and CCAs' customers through any sort of non-bypassable charge must have a proportionate share of the energy storage capacity allocated to the ESP; to do otherwise would mean that the customers of the ESPs and CCAs are unfairly subsidizing the IOU's procurement, and creating a competitive advantage to the IOUs by allowing them to "count" toward their individual energy storage goals projects that are being partially paid for by customers of ESPs and CCAs. To remedy this inequitable situation, the Commission should modify the PD, as proposed by the Direct Access Parties in its comments on the PD, to require that each ESP and CCA with load in an IOU's service territory should receive a proportional share of the MW capacity of any energy storage project paid for by all customers and be allowed to "count" that MW capacity amount toward meeting its own energy storage procurement target.[17]

Respectfully submitted,

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[17] See proposed PD modifications in the Appendix to AReM/Sam's Club/Walmart's Comments.