

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

**REPLY COMMENTS OF SHELL ENERGY NORTH AMERICA
(US), L.P. ON THE PROPOSED DECISION**

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In accordance with Commission Rule 14.3, Shell Energy North America (US), L.P. (“Shell Energy”) submits its reply comments on the Assigned Commissioner’s September 3, 2013 proposed decision (“PD”). Shell Energy’s reply comments respond to erroneous or misleading statements in the opening comments of PG&E and TURN.

I.

**THE PD PROPERLY ESTABLISHES INDEPENDENT
ENERGY STORAGE PROCUREMENT TARGETS
FOR ESPs AND CCAs**

The PD recommends that the Commission require electric service providers (“ESP”) and community choice aggregators (“CCA”) to procure enough energy storage to equal one percent of their annual peak load by 2020. See PD at pp. 43-44; Appendix A at p. 2. The energy storage procurement target proposed for ESPs and CCAs necessarily differs from the storage procurement targets proposed for the investor-owned utilities (“IOU”). In its opening comments, however, PG&E complains that the PD “provides no reasoned basis for this disparate treatment.” PG&E Comments at p. 3. PG&E and TURN assert that the energy storage procurement target

for ESPs and CCAs should be the same (proportionately) as the energy storage targets established for the IOUs. Id. at pp. 3-4; TURN Comments at p. 3.

PG&E and TURN improperly ignore the fact that ESPs and CCAs provide a different, and more limited role in the market compared to the IOUs. ESPs and CCAs provide procurement (generation)-related services and customer-related services to their customers. Unlike the IOUs, ESPs and CCAs do not manage the grid and do not provide transmission- and distribution-related services. ESPs and CCAs cannot and should not be responsible for procuring transmission- and distribution-related storage for their procurement customers.

In this connection, SCE states in its opening comments that “any storage that operates as a distribution grid asset must be owned by the utilities.” SCE Comments at p. 3. SCE asserts that the Commission’s decision “should explicitly state that distribution reliability function storage will be classified as distribution assets and [will] be owned and operated by the utilities.” Id. at pp. 3-4. Shell Energy agrees with SCE on this point. ESPs and CCAs should not have an obligation to purchase distribution-related (or transmission-related) storage. As stated by SDG&E in its opening comments, “an energy storage system acquired for distribution system reliability should be treated similarly as other capital or operating expenditures for distribution reliability.” SDG&E Comments at p. 2.

As noted in the joint comments of AReM, et al. (“AReM”), the IOUs will have much greater flexibility than ESPs and CCAs with respect to the location of energy storage, including the siting of storage at customer facilities. See AReM Comments at pp. 4-5. Because the IOUs operate the transmission and distribution systems, the IOUs control the information necessary to determine when and where energy storage will be most efficient and effective. ESPs and CCAs do not have this information. It would be unreasonable to impose an energy storage procurement obligation on ESPs and CCAs for the transmission/distribution grid domain functions.

If ESPs and CCAs are required to purchase storage on behalf of their customers, ESP and CCAs' storage procurement targets must be more limited than the IOUs' energy storage targets. PG&E and TURN's proposal to impose an "equivalent" energy storage procurement obligation on ESPs and CCAs should be rejected.

II.

THE ENERGY STORAGE PROCUREMENT TARGETS FOR ESPS AND CCAS SHOULD BEGIN IN 2020

PG&E proposes that the "timing" for ESP and CCAs' storage procurement targets should be the same as the timing for the IOUs' storage procurement targets. See PG&E Comments at p. 4. Specifically, PG&E seeks to impose storage procurement targets on ESPs and CCAs for the years 2016 and 2018. Id. PG&E's proposal should be rejected. The IOUs have experience purchasing energy storage through pilot programs and other initiatives approved by the Commission. The IOUs also have unique opportunities for the purchase of energy storage for grid-related needs. By contrast, ESPs and CCAs are not responsible for managing the transmission/distribution grid and do not have the ability to plan for distribution-related storage.

Moreover, developing customer-side storage requires long-term planning and investment by the customer and by the retail seller. With smaller customer loads and more limited energy storage procurement opportunities, ESPs and CCAs should be afforded a reasonable time (at least until 2020) to meet their energy storage procurement target.

As recommended in the PD, it is reasonable to set 2020 as the target date for ESPs and CCAs to meet their storage procurement targets. Shell Energy agrees with Calpine and AReM, however, that the PD should be modified to allow an ESP or a CCA to defer a portion of its energy storage procurement obligation beyond 2020 if it can show that it cannot obtain "viable" and "cost-effective" storage within the target period. See Calpine Comments at pp. 2-3; AReM Comments at pp. 3-5.

III.

THE COMMISSION SHOULD REJECT “CAM” TREATMENT FOR ANY OF THE IOUs’ ENERGY STORAGE PROCUREMENT COSTS

PG&E argues that if ESPs and CCAs are not required to meet the same energy storage procurement targets as the IOUs, the Commission “should use a Cost Allocation Method (CAM) to ensure that all groups of customers share the costs of storage in a fair and equitable manner.” PG&E Comments at p. 5. PG&E’s argument should be rejected.

As noted by SCE, some storage projects are distribution- or transmission-related. The costs of these storage projects should be allocated to all customers through their distribution or transmission rates. See SCE Comments at p. 3. The costs of the IOUs’ procurement (generation)-related storage and customer-side storage, however, should not receive CAM treatment. The CAM does not apply to storage. The CAM applies to new generation, acquired by the IOUs, that is found by the Commission to be necessary to meet all customers’ system or local area capacity reliability needs. See D.13-02-015 (February 13, 2013) at p. 96. Storage purchased by the IOUs is not eligible for CAM treatment.

SCE argues that the cost of behind-the-meter storage should be “treated the same as various EE, DR or SGIP programs and [should] be allocated to all customers.” SCE Comments at pp. 4-5. Shell Energy does not oppose SCE’s recommendation, but the allocation of the cost of such storage to all customers should be through distribution rates, not through the CAM. Moreover, if the costs of an IOU’s special storage programs are included in all customers’ rates, and if the associated storage counts toward the IOU’s storage procurement target, a proportionate share of the storage should count toward the ESP or CCA’s storage procurement target, as well. See AReM Comments at p. 7.

As for the IOUs’ costs associated with the purchase of generation (procurement)-related storage and other customer-related storage, the Commission should not employ a “CAM”-type

allocation methodology to spread the costs to all customers. ESPs and CCAs have their own storage procurement obligation. As noted by Calpine and by AReM, ESPs and CCAs are likely to work with individual customers to develop customer-owned storage. See Calpine Comments at pp. 3-4; AReM Comments at p. 4. ESPs and CCAs also will acquire their own procurement (generation)-related storage to meet their storage procurement targets. Allocation of the cost of the IOUs' procurement-related and customer-related storage to the customers of ESPs and CCAs would result in double-counting.

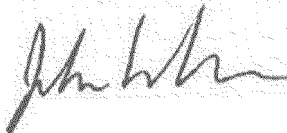
IV.

CONCLUSION

For ESPs and CCAs, the requirement to purchase energy storage (equal to one percent of the retail seller's annual peak load) should commence in 2020. ESPs and CCAs should have the opportunity, however, to request a "deferral" of their energy storage procurement target if they cannot obtain "viable" and "cost-effective" storage.

CAM treatment should not apply to the IOUs' storage procurement costs. In addition, if the IOUs' "special storage program" costs are allocated to the customers of ESPs and CCAs, a proportionate share of the associated storage should offset ESP and CCAs' storage procurement targets.

Respectfully submitted,



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