

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding Policies,  
Procedures and Rules for the California Solar  
Initiative, the Self-Generation Incentive Program  
and Other Distributed Generation Issues.

Rulemaking 12-11-005  
(Filed November 8, 2012)

**OPENING COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) ON  
THE ASSIGNED COMMISSIONER'S RULING REGARDING THE  
INTERCONNECTION OF ENERGY STORAGE SYSTEMS PAIRED WITH  
RENEWABLE GENERATORS ELIGIBLE FOR NET ENERGY METERING**

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November 1, 2013

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**I.  
INTRODUCTION**

In response to Commissioner Michael R. Peevey’s *Assigned Commissioner’s Ruling Regarding the Interconnection of Energy Storage Systems Paired with Renewable Generators Eligible for Net Energy Metering* (“Ruling”) issued on October 17, 2013, San Diego Gas & Electric Company (“SDG&E”) respectfully submits these Opening Comments on the Ruling’s proposal to give storage devices meeting the Renewable Portfolio Standard (“RPS”) Eligibility Commission Guidebook (“Guidebook”) requirements the same benefits available to renewable generating facilities under the Net Energy Metering (“NEM”) tariffs until, at a minimum, December 31, 2015.

SDG&E’s Comments address only energy storage devices that are paired with Distributed Generation (“DG”) systems which are charged using a renewable source, as defined by the California Energy Commission (“CEC”). Storage devices that are charged in any capacity using non-renewable generation (including storage systems charged using energy from the electrical grid) are clearly not NEM eligible and are, therefore, not discussed herein.

While SDG&E supports the growth and encouragement of energy storage devices, SDG&E urges this Commission to provide parties the opportunity to completely and

comprehensively vet this issue prior to the issuance of a proposed decision and recommends the Commission consider to what extent the new NEM tariffs accurately capture the benefits and costs of energy storage devices. The Commission already provides substantial direct incentives for the installation of storage devices through the Self-Generation Incentive Program (“SGIP”). SDG&E believes that these existing transparent subsidies, paired with the Commission’s recently adopted storage mandate,<sup>1</sup> adequately incent deployment of distributed storage technologies. SDG&E does not believe that interconnection studies, standby charges, distribution upgrades or any other additional costs should be paid for (or embedded in rate design) by non-participating customers at the current time. If, however, the Commission believes it should revisit the incentive levels, it should follow good public policy by considering storage independently to reassess, if necessary, the current storage incentive levels and ensure that any additional subsidies are transparent and appropriately sized. Offering energy storage devices NEM treatment contradicts the Commission’s Rate Design Principles, as presented in the Residential Rate Reform Order Instituting Rulemaking (“OIR”), R.12-06-013, specifically that rates should avoid cross-subsidies and incentives should be explicit and transparent.<sup>2</sup>

Also discussed herein, SDG&E requests that a sunset date of December 31, 2015 be established for any adopted provisional program. Furthermore, the Ruling’s tracking requirement falls short of identifying the cost shift borne by non-participating customers. Finally, SDG&E provides its response to the Commission’s questions regarding Net Generating Output Metering (“NGOM”) requirements.

## **II. BACKGROUND**

Created by Assembly Bill (“AB”) 656, the NEM program is an electricity tariff billing mechanism designed to facilitate the installation of renewable DG by offering customers retail-rate billing credits for energy exported to the electrical grid at times when such generation

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<sup>1</sup> D.13-10-040, issued on October 21, 2013 in R.10-12-007, and approved by the Commission on October 17, 2013.

<sup>2</sup> Principles of Rate Design 7 and 8, Attachment A of Administrative Law Judge’s Ruling Requesting Residential Rate Design Proposals, issued on March 19, 2013.

exceeds onsite energy demand. Participation in NEM also exempts customer-generators from any costs associated with interconnection studies, application review fees, distribution system modifications, and standby charges. In 2011, Senate Bill (“SB”) 489 expanded the NEM-eligible technologies to include all RPS-eligible Commission technologies.

On April 30, 2013, the CEC adopted the seventh edition of the Guidebook, which included a new section, Section III.G, concerning energy storage technologies. This new section attempts to clarify the conditions under which a storage device may be considered an addition or enhancement to a renewable electrical generation facility. Interpretation of this new section varies amongst parties as to when a storage device would be properly considered NEM-eligible.

Currently, energy storage devices paired with NEM-eligible facilities interconnect under terms of the Multiple Tariff Facility, Special Condition 6, of SDG&E’s Schedule NEM. Under this Special Condition, customers with storage devices are treated similarly to other non-NEM customers and are not exempted from the interconnection-related fees (i.e. Electric Rule 21-related fees) and metering requirements.

**III.  
THE COMMISSION SHOULD DEVELOP A MORE ROBUST RECORD TO ADHERE  
TO THE ESTABLISHED PROCEDURAL PROCESS PRIOR TO MAKING ANY  
DETERMINATION ON THE PROPER TREATMENT OF ENERGY STORAGE  
DEVICES**

The proper treatment of energy storage devices paired with NEM is a grey area that has not been properly vetted through the Commission’s well-defined procedural process. While the question “Should energy storage be NEM-eligible technology?” is not new, there have been no opportunities for parties to put forth their respective proposals on a fully developed record. SDG&E urges this Commission to develop such a record pursuant to Rule 13.14(a) of the Commission’s Rules of Practice and Procedure, which provide that: “...a proceeding shall stand submitted for decision by the Commission after the taking of evidence, the filing of briefs, and the presentation of oral argument as may have been prescribed.”

Significantly, regarding the issue of NEM eligibility for energy storage devices, the Commission has not afforded parties the opportunity to develop facts for the Commission to consider through the submission of proposals, pleadings, or prepared testimony, requests for evidentiary hearings, conduct of discovery and cross examination of parties' proposals or file briefs. Parties have only been permitted opening and reply comments on this matter, which are largely unsupported opinion, and thus fail to provide the Commission credible facts to weigh in its policy considerations. The current, abbreviated approach is procedurally inadequate as it fails to provide the Commission with a robust and ample record based on sound evidence upon which to draft a competent decision.

**IV.  
THE COMMISSION SHOULD UPHOLD GOOD PUBLIC POLICY AND CONSIDER  
ENERGY STORAGE INDEPENDENTLY**

The Commission has addressed energy storage-related issues in many venues, including the Energy Storage OIR (R.10-12-007), Interconnection OIR (R.11-09-011), and DG OIR in the context of the Self Generation Incentive Program ("SGIP"). Through its extensive evaluation and development of energy storage, the Commission has issued noteworthy decisions and accomplished a great deal. The Commission has crafted and followed good public policy designed to support the state's underlying energy goals, among which is to promote and facilitate the development of technologies. However, this Ruling sweeps all prior Commission decisions and precedent aside in an attempt to establish a framework for energy storage to bypass applicable and relevant costs and treat storage providers as NEM customers. It should be noted that the costs energy storage customers would avoid if given NEM treatment would not be eliminated; they would be embedded in the rates paid by all other customers, obscuring this new subsidy.

Moreover, in the Energy Storage OIR, the Commission recently approved Decision ("D.") 13-10-040 ("Energy Storage Procurement Decision")<sup>3</sup> setting procurement targets for

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<sup>3</sup> D.13-10-040 was issued on October 21, 2013 and approved by the Commission on October 17, 2013.

each investor-owned utility (“IOU”). The Energy Storage Procurement Decision sets a framework which allows the IOUs to procure energy storage which is the most cost-effective and beneficial to the utility and ratepayers. That decision sets the appropriate motivation to encourage energy storage procurement.

The immediate Ruling should follow the lead of the Energy Storage Procurement Decision. It should not create an additional – and hidden – subsidy for energy storage which skews the marketplace towards a certain application. The immediate Ruling incentivizes one subset of storage over others and does not allow the market to identify and support the most cost-effective storage applications. The Commission should consider storage independently and not classify it as NEM-eligible in order to authorize a few select customers to bypass costs or jumpstart a growing energy storage market. If the Commission deems the current SGIP incentives lacking, it should base this finding on a procedural record that has been thoroughly vetted by various stakeholder groups and the Commission staff. Arbitrarily giving selected energy storage devices NEM treatment is not the solution.

## V.

### **ENERGY STORAGE IS WELL-SUPPORTED BY EXISTING INCENTIVES; THE COMMISSION SHOULD NOT CREATE NEW HIDDEN SUBSIDIES**

Although the Ruling proposes to give storage devices meeting the Guidebook requirements the same benefits available to renewable generating facilities under the NEM tariffs, it fails to recognize the value of existing direct incentives and mandates.

As mentioned in the Ruling, the Commission is concerned with economic viability for storage projects: “Parties previously argued that the combination of application fees and threat of additional fees and expenses required for interconnection render the project economics for these systems unattractive and create significant uncertainty for households and businesses considering the addition of storage to their renewable generating facilities.”<sup>4</sup> However, the Ruling does not address or analyze the significant direct subsidies that are already provided through the SGIP or

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<sup>4</sup> Assigned Commissioner’s Ruling Regarding the Interconnection of Energy Storage Systems Paired with Renewable Generators Eligible for Net Energy Metering, issued on October 17, 2013, at p.5.

how a new hidden subsidy in the form of avoided charges would impact project economics or all other customers.

In support of SDG&E's policy recommendations and to benefit the record, SDG&E offers the following regarding current incentives available for storage and quantifying the additional subsidy if storage is NEM-eligible.

Energy storage devices already receive significant incentives via the SGIP.<sup>5</sup> Presently, within SDG&E's service territory, there are 112 SGIP applications for energy storage devices totaling 4.7 megawatts ("MW"). As shown in Table 1, the estimated cost for a five kilowatt ("kW") energy storage system is \$20,000. Applicants receive approximately a \$12,000 rebate via the SGIP program (60% of the total cost), which is already being borne by bundled customers.<sup>6</sup> Absent a reliability need and a home energy management system, residential customers are more likely to take advantage of the free storage services that they currently receive from SDG&E. Commercial and industrial customers, who incur demand charges, already take advantage of cost effective energy storage systems to avoid or minimize demand charges via storage systems offered by companies such as STEM. In SDG&E's opinion, the need for additional incentives for energy storage devices is unnecessary.

As Table 1, below, demonstrates, the additional incentives, \$1,300, would not be tied to the cost of achieving policy objectives. If energy storage device costs decline similar to what is seen in rooftop solar prices, the incentive will not go down to reflect that trend requiring customers to pay for a higher incentive than necessary. Additionally, if energy storage is given NEM treatment, it will further obscure costs associated with energy storage devices and allocate the cost among all ratepayers. The bypass of additional costs, including standby charges and any distribution system upgrades, for such a system could result in significant cost shifts. NEM will also allow customers to bypass costs such as Public Purpose Programs ("PPP"). These subsidies

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<sup>5</sup> Most energy storage devices operate like a generator during the discharge operation; however, they must be charged first.

<sup>6</sup> The figures presented herein were provided by the California Center for Sustainable Energy ("CCSE"), who is the Program Administrator for SGIP in SDG&E's service territory. CCSE processes the SGIP incentives for energy storage devices for SDG&E customers.

are hidden within the NEM rate treatment and create cost shifts between customers. If the Commission is determined to further subsidize energy storage systems beyond the generous SGIP allowance, a proceeding with sound evidence should be opened for parties to discuss this issue.

Please note that the information presented in Table 1 is for illustrative purposes only. Many of the figures are estimates and are subject to change. Table 1 does not include items such as standby charges, distribution system upgrades, or avoided PPP. It is also important to note that the California Center of Sustainable Energy (“CCSE”) is responsible for processing and calculating a customer’s SGIP incentive amount in SDG&E’s service territory.

**TABLE 1**

Storage Capacity (kW)		5
Cost of Storage Device	\$20,000	
<i>SGIP Rebate</i>	<i>\$12,000</i>	
Net Cost After SGIP		\$8,000
Application Fee	\$800	
NGOM (estimated)*	\$500	
<i>NEM Initial Subsidy</i>	<i>\$1,300</i>	
Net Incentive After NEM		\$13,300

\* A NGOM is required to identify the output of non-NEM sources when NEM and non-NEM sources have separate inverters.

Avoiding interconnection, review fees, standby charges and other applicable fees will not influence a customer’s use of the technology in a way that is directly designed to encourage beneficial behavior. Accurate price signals coupled with the current, direct, transparent SGIP incentive supports statewide policy goals. Direct incentives are explicitly cited in the Commission’s Rate Design Principles as stated in the Residential Rate OIR. Rate Design Principle 8: “Incentives should be explicit and transparent.” The current, direct, transparent SGIP incentive also supports Rate Design Principle 7: “Rates should avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals.”<sup>7</sup>

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<sup>7</sup> Attachment A of Administrative Law Judge’s Ruling Requesting Residential Rate Design Proposals, issued on March 19, 2013.



SDG&E reiterates that energy storage coupled with renewable resource or stand-alone energy storage systems should not be eligible for NEM treatment. Consistent with the recent passage of AB 327 and the on-going Residential Rate Reform OIR, SDG&E believes being transparent, upholding good public policy, providing accurate price signals to customers, and avoiding further cross-subsidies ultimately benefits customers, which in turn will allow them to make informed decisions as to the value of energy storage.

**VI.**  
**THE COMMISSION WILL BE REEVALUATING THE NEM PROGRAM IN ACCORDANCE WITH AB 327 AND SHOULD THEREFORE NOT CONSIDER ENERGY STORAGE DEVICES NEM- ELIGIBLE AT THIS TIME**

On October 7, 2013, Governor Brown signed AB 327 into law. AB 327 provides that, prior to December 31, 2015, the Commission shall develop a new NEM standard contract or tariff that reflects the costs and benefits of renewable electrical generation facilities while also providing for sustainable growth in DG.<sup>8</sup> AB 327 also prescribes that the Commission shall determine which rates and tariffs are applicable only during a rulemaking proceeding on NEM.<sup>9</sup> While this Ruling may technically comply with the AB 327 rulemaking proceeding requirement,<sup>10</sup> the Commission will be reevaluating the NEM program in the very near future to develop the required new NEM tariff by December 31, 2015. Therefore, it would be inappropriate as a matter of stakeholder efficiency, use of resources and good ratemaking policy to address this in isolation rather than reviewing NEM in its entirety.

Accordingly, the Commission should develop “a standard contract or tariff, which may include net energy metering”<sup>11</sup> as directed to under AB 327 *prior* to making any amendments to the existing structure that would serve to broaden the eligibility of new technologies or customers. This is a prudent course of action for the Commission to follow because:

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<sup>8</sup> Section 2827.1(b) as revised by AB 327.

<sup>9</sup> *Id.*

<sup>10</sup> Section 2827.1.(b)(7) as revised by AB 327.

<sup>11</sup> Section 2827.1.(b) as revised by AB 327.

1. The existing NEM structure has been shown to create cost shifts of over \$1 Billion by the time the California’s investor-owned utilities (“IOUs”) reach the NEM cap of 5% as shown by the Commission’s recent report “California Net Energy Metering Ratepayer Impacts Evaluation” produced by Energy and Environmental Economics, Inc. (“E3”).<sup>12</sup>
2. AB 327 directs the Commission to develop the new NEM tariff such that it satisfies fact-based criteria rather than unsupported opinion. Identification of and support for such facts are best addressed within the proceeding the Commission must conduct to develop the requisite new NEM tariff rules. These criteria include:
  - Ensuring that the standard contract or tariff made available to eligible customer-generators is based on the real costs and benefits of the renewable electrical generation facility.
  - Ensuring that the total benefits of the standard contract or tariff to all customers and the electrical system are approximately equal to the total costs.<sup>13</sup>

Before making a decision that extends the application of NEM, the Commission should determine if NEM is the reasonable mechanism by which to encourage the adoption of the new technology such as energy storage.

3. The proposal set out in the Ruling to provide NEM benefits to energy storage devices is contrary to the Commission’s established rate design policy of providing subsidies, to the extent subsidies are necessary, through a direct and transparent incentive. Contrary to these rate design goals<sup>14</sup>: “This ruling seeks comment on a proposal to give storage devices meeting the Guidebook

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<sup>12</sup> California Net Energy Metering Ratepayer Impacts Evaluation, released on October 28, 2013, at p. 6.

<sup>13</sup> Section 2827.1(b)(3) and (4) as revised by AB 327.

<sup>14</sup> Principles of Rate Design 7 and 8, Attachment A of Administrative Law Judge’s Ruling Requesting Residential Rate Design Proposals, issued on March 19, 2013.

requirements the same benefits available to renewable generating facilities under NEM tariffs until, at a minimum, December 31, 2015. Specifically, such storage devices *would be exempt from standby charges, interconnection application and review fees and would not be required to pay for any distribution system upgrades triggered by the storage devices.*<sup>15</sup>

In addition, as noted above, the implications of the cost shifts of the NEM billing mechanism are also a significant subsidy that is not transparent. Incentivizing technologies by allowing participants to avoid their cost of service: (1) does not tie the incentive to the cost of the technology, increasing the cost to achieve the policy; (2) obscures the level of the incentive that is provided and the cost shifts that are created; and (3) creates uncertainty for customers as to the level of incentive is tied to rate design and rate design changes as can be seen in the recent AB 327 legislation.

Therefore, if the Commission is nevertheless determined to define energy storage devices as NEM-eligible technology, the Commission should do so during the larger NEM rulemaking which will develop the new NEM standard contract.

## **VII. IF THE PROPOSED EXEMPTION IS ADOPTED, A SUNSET DATE OF INTERCONNECTION COSTS SHOULD BE ESTABLISHED**

The Ruling proposes, on a provisional basis, exempting NEM-paired storage connecting by December 31, 2015 from distribution upgrades costs. The Ruling further states that if the Commission has not acted by December 31, 2015, the exemption will remain in effect.<sup>16</sup> If the proposed exemption of interconnection costs is adopted, SDG&E requests that the Commission include a sunset date of December 31, 2015 for any action taken in order to reconsider this issue at that time. As stated in Section VI above, this date is consistent with when the Commission

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<sup>15</sup> Assigned Commissioner's Ruling Regarding the Interconnection of Energy Storage Systems Paired with Renewable Generators Eligible for Net Energy Metering, issued on October 17, 2013, at p.1 (emphasis added).

<sup>16</sup> *Id.*, at p.8.

must provide a new standard contract for the NEM program. Accordingly, SDG&E requests the Commission determine the proposed exemption will be active through December 31, 2015. The exemption shall expire upon that date unless the Commission acts to extend it.

**VIII.  
THE RULING FALLS SHORT OF ADEQUATELY TRACKING THE COST SHIFT  
CREATED**

The Ruling orders the utilities, beginning with the current cohort of pending storage interconnection requests, to “record data on the lost revenue resulting from this treatment of renewable-paired storage disaggregated into three categories: 1) interconnection application fees, 2) supplemental study fees, and 3) distribution upgrades necessitated by the presence of the storage devices.”<sup>17</sup> This tracking, however, falls short of adequately tracking the cost shift created by giving energy storage devices the same benefits as NEM customers. Indeed the “lost revenue” referred to is not lost revenue, but rather a cost shift borne by other customers. Given the cost shift identified by the recent Commission’s California Net Energy Metering Ratepayer Impacts Evaluation by E3, the impact of the cost shift from NEM because of rate design should be considered as well.

**IX.  
SDG&E’S RESPONSE TO QUESTIONS REGARDING NET GENERATION OUTPUT  
METERING**

The Ruling seeks responses to three questions regarding the Net Generation Output Metering requirements. Although SDG&E finds them slightly unclear, SDG&E’s best efforts responses to those questions are provided below:

- 1. For single inverter systems, or other system configurations that do not allow NGOM, should the Commission consider estimated NEM generation as a means to limit NEM export credits during peak periods?**

SDG&E does not advise that the Commission estimate NEM generation for single inverter systems or other system configurations that do not allow NGOM. A precise, technical

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<sup>17</sup> Assigned Commissioner’s Ruling Regarding the Interconnection of Energy Storage Systems Paired with Renewable Generators Eligible for Net Energy Metering, issued on October 17, 2013, at p.2.

methodology is needed to calculate accurate generation and credit amounts. A detailed and accurate methodology for estimating NEM generation would also measure and include weather variations, such as overcast days and coastal fog, as the weather can have a significant impact on generation. Moreover, SDG&E recommends that any export (flow toward the utility) on the customer's billing meter during daytime operating hours that exceeds the estimated maximum NEM generation should be compensated at the SDG&E Default Load Aggregation Point ("DLAP") price. Further, any export on the customer's billing meter outside daytime operating hours should likewise be compensated.

SDG&E further notes that estimates or forecasts are dependent on assumptions, are subject to change and are often incorrect. Therefore, the IOUs should not estimate NEM generation for any situation as they could potentially be held liable or accountable for any estimation or assumption that does not come to fruition.

**2. Storage devices sized below a certain limit could pose a de minimis risk of harming NEM integrity. Should the Commission consider a threshold storage capacity below which NGOM is not required for the NEM generator? If so, what is an appropriate threshold and should the threshold be based on absolute capacity or in relation to customer load and the NEM generator capacity?**

The Commission should not consider a threshold capacity below which an NGOM is not required for NEM generators which are co-sited with storage. The Ruling correctly recognizes that the addition of storage to NEM systems puts the overall NEM program at risk. It is presumptuous to assume, at this time, that storage devices below a certain size will have a de minimis risk, especially when looking at the aggregated impact. As can be seen in the Commission's recent report on NEM residential rooftop solar, which are the smaller systems, make up that vast majority of the over the estimated \$1 billion annual cost shift.<sup>18</sup> The Commission should not render its decision on this issue on an unsubstantiated assumption. This

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<sup>18</sup> California Net Energy Metering Ratepayer Impacts Evaluation, released on October 28, 2013, at p. 6.

is another example of where the Commission must develop a fact based record if it is concerned with getting its policy right.

SDG&E believes NGOM should be required for a number of reasons. First, it is imperative that transparent metering is utilized in order to ensure that the storage device is being charged with green energy. Depending on how the customer utilizes the storage device the device could be charging and discharging numerous times per day or only when there is a power outage. Without proper metering the utility and the Commission will not know how the energy storage device is being charged (green or brown energy), how it is operating and how it is impacting the NEM program.

Second, proper metering will allow the utility to understand how the energy storage device is being charged and how it is being operated. This will allow the utility to understand which circuits are feeling the most drastic impact of these devices and allow the utility to mitigate safety and reliability issues.

**3. Because storage devices increase total consumption, customers on non-time-varying rates have no financial incentive to export energy for NEM credit, should NGOM be required for customers who are not on time-varying rates?**

SDG&E does not support an estimation methodology for NEM credits for single inverter systems or other configurations that do not allow NGOM, as stated in SDG&E's response to Question 1 above. A technical solution is required in order to ensure that the energy exported from an energy storage device is coming from a renewable source in order to ensure that the existing subsidies provided by NEM are not effectively extended to more technologies prior to a re-examination of NEM rules as directed by AB 327. The necessary level of granularity and the administrative burden of such an estimation methodology that could reduce the risk of NEM credits being generated by exporting energy from non-renewable resources, while not eliminating it, could be considerable. Incorporating weather variations such as overcast days and coastal fog would be both necessary and at the same time complicate any such estimation. The consideration of an estimation methodology and whether or not it is an adequate alternative to an

NGOM should be further examined by the Commission on the record so that the input from all stakeholders can be taken into account when assessing the impact of such a method on all parties.

In addition, SDG&E believes incentives or subsidies should be transparent, direct and support accurate price signals, which include time variant rates. An NGOM is required for accurate price signals so it would be counter-productive to create a situation where the metering required was not in place to support such an outcome.

## **X. CONCLUSION**

SDG&E respectfully submits these comments for the Commission's consideration and requests that energy storage devices' NEM-eligibility be given a more robust procedural record prior to the issuance of a draft decision. Providing energy storage additional incentives in excess of the current, generous SGIP incentives are unnecessary. Further, giving energy storage NEM treatment provides a hidden subsidy that is contrary to the Commission's Rate Design Principles and is premature as the Commission will soon develop the new NEM tariff pursuant to AB 327. Finally, if the Commission is inclined to move forward with its proposal, a sunset date should be established and the cost shift borne by other customers should be tracked.

DATED at Los Angeles, California, this 1<sup>st</sup> day of November, 2013.

Respectfully submitted,

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