

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

**OPENING COMMENTS OF SHELL ENERGY
NORTH AMERICA (US), L.P. ON THE ASSIGNED
COMMISSIONER'S STRAW PROPOSAL**

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In accordance with the Assigned Commissioner's Ruling ("ACR") dated June 10, 2013, Shell Energy North America (US), L.P. ("Shell Energy") submits its opening comments on the "straw proposal" for load-serving entities ("LSE") to meet energy storage procurement targets. Shell Energy makes some general comments about the straw proposal, and then provides comments on the specific questions presented in the ACR.

I.

INTRODUCTION

Shell Energy is a wholesale marketing and trading company as well as an Electric Service Provider ("ESP") in California. Shell Energy markets natural gas and electricity to wholesale and retail customers throughout California and the western United States. As an ESP, Shell Energy sells electric power, including Resource Adequacy ("RA") capacity and RPS-eligible energy, to retail customers throughout the State. Shell Energy is also actively pursuing the sale of electricity supplies and RPS-eligible energy to existing and prospective Community Choice Aggregators ("CCA") in California, including a current supply arrangement with the Marin Energy Authority ("MEA").

Shell Energy competes with the State’s investor-owned utilities (“IOU”) for sales of energy to retail electric customers. As an ESP, and as a CCA supplier, Shell Energy seeks flexibility in purchasing capacity, supplies and related assets that enable Shell Energy to offer reliable and economic service options to wholesale and retail sales customers.

Shell Energy supports the integration of energy storage in the mix of resources used by LSEs to provide reliable energy supplies to their retail customers. Shell Energy also supports the integration of energy storage by the IOUs to ensure a reliable transmission/distribution grid. As an ESP, Shell Energy anticipates that it will incorporate storage in its energy procurement strategy when economically justified. The Commission should not establish a “mandate,” however, for ESPs and CCAs to purchase energy storage. ESPs and CCAs should have the flexibility to rely upon storage and/or other resources (e.g., RPS energy; demand response) to meet their customers’ energy and capacity requirements.

Moreover, as the record in earlier phases of this proceeding established, storage can provide “grid reliability” functions that may not be directly related to the energy/capacity “procurement” function. ESPs and CCAs should not be required to purchase (or pay for) energy storage that provides a grid reliability function on the IOUs’ transmission and/or distribution systems. These functions are performed by the IOUs, with oversight by the CAISO and this Commission. To the extent that this Commission, the CAISO, or the IOUs determine that energy storage should be obtained to meet grid reliability, the IOUs will obtain storage that is strategically located. The costs of this “grid reliability” storage should be allocated to all customers (including direct access and CCA customers) in their transmission/distribution rates.

Finally, the Assigned Commissioner’s proposed storage procurement protocol (including the solicitation process) is focused on the IOUs. If the Commission were to adopt storage procurement targets that must be met by ESPs and CCAs (for the procurement function), ESPs

and CCAs must have flexibility to meet the storage procurement obligation on their own terms. The proposed “solicitation” process and the proposed “reverse auction mechanism” should not be imposed on ESPs and CCAs. In this connection, any storage procurement obligation should be “technology neutral.” Specific storage technologies such as pumped hydro should not be excluded from eligibility.

II.

ESPs AND CCAs SHOULD NOT BE REQUIRED TO PURCHASE ENERGY STORAGE TO MEET THE IOUs’ GRID RELIABILITY RESPONSIBILITIES

The ACR proposes that the Commission impose the same energy storage procurement obligations on ESPs and CCAs that are imposed on the IOUs. See ACR at p. 15. This proposal seems to be without regard to whether the storage is generation-related, transmission-related, distribution-related or customer-related.

The Commission must recognize that ESPs and CCAs are not responsible for planning, operating or maintaining the IOUs’ transmission and distribution systems. ESPs and CCAs should not have an obligation to purchase storage to meet the IOUs’ transmission and distribution responsibilities.

In fact, the location of energy storage is critical when the IOUs and/or the CAISO address transmission and distribution system reliability. ESPs and CCAs are not privy to information developed by the IOUs regarding the optimal location of energy storage to meet grid reliability. ESPs and CCAs should not be required to purchase storage for the IOUs’ transmission/distribution functions. If the Commission determines that energy storage should be developed by the IOUs (or purchased by the IOUs from third parties) to meet or enhance transmission/distribution reliability, the IOUs should bear this responsibility, and the costs should be included in all customers’ transmission or distribution rates.

III.

ESPs AND CCAs SHOULD NOT BE FORCED TO PURCHASE ENERGY STORAGE TO FACILITATE THEIR PROCUREMENT OBLIGATION

There are many reasons why an LSE, including an ESP or a CCA, will purchase energy storage to meet its energy and capacity procurement obligation, if the cost of energy storage is competitive. Storage allows an LSE or a CCA to shift the timing of its energy purchases, as well as the timing of its customers' energy consumption, from peak periods to off-peak periods. Energy storage can provide a price hedging function, a balancing function, and potentially a flexible capacity procurement function. Shell Energy is very supportive of the use of energy storage to enhance its energy and capacity procurement flexibility as an LSE. Customer-side storage can provide additional efficiencies, if the storage is cost-effective.

Shell Energy does not support a storage procurement mandate, however, for ESPs and CCAs. The direct access and CCA programs were established to allow a customer and its supplier to work together to develop an energy procurement strategy and portfolio that best fits the customer's requirements. Although certain statutory procurement requirements (RPS; RA) are applicable to all LSEs, these requirements are intended to meet statewide goals for greenhouse gas ("GHG") emissions reductions and capacity availability. Storage, by contrast, provides delivery flexibility for whatever generation resources are included in the LSE's supply portfolio.

As noted at the June 25, 2013 all-party meeting, energy storage does not create energy. Energy storage merely moves energy to a higher valued time period. Although energy storage can be a valuable resource for any LSE, imposing an energy storage procurement mandate on ESPs and CCAs would reduce these LSEs' procurement flexibility. Owing to the cost of energy storage, a storage procurement mandate could prevent an ESP or a CCA from integrating additional RPS supplies, or demand response, in its supply portfolio. A storage procurement

mandate effectively creates a “preference” for storage above other technologies and assets, regardless of whether storage can compete economically with other resources.

As the Commission imposes an increasing number of procurement obligations on ESPs and CCAs, the margin for differentiating retail sales service between non-IOU LSEs and IOUs narrows. An energy storage procurement mandate would increase customer costs and make it even more difficult for ESPs and CCAs to compete with the IOUs for sales to retail customers.

IV.

THE PROPOSED STRUCTURE FOR THE IOUs’ STORAGE PROCUREMENT TARGETS DOES NOT WORK FOR ESPs AND CCAs

The ACR presents a structure and a protocol for energy storage procurement targets for the IOUs. The ACR then states that ESPs and CCAs should have the option to either:

- a) pay their share of energy storage procurement costs to utilities through the Cost Allocation Mechanism, and/or
- b) procure energy storage projects commensurate with their load share.

ACR at p. 15. For the following reasons, the proposed storage procurement structure for the IOUs does not and cannot translate to a procurement mandate for ESPs and CCAs.

First, the ACR states that the “targets” represent the amount of storage capacity that each IOU must “solicit.” ACR at p. 7. How would the Commission impose (and enforce) a “solicitation” target on ESPs and CCAs? Must ESPs and CCAs hold a formal solicitation? How is the solicitation to be structured? Must ESPs and CCAs employ a “reverse auction?” Must ESPs and CCAs hold a solicitation at a fixed time every two years? For the amount of load served by most ESPs, an auction process would be unreasonably costly and unwieldy. In any event, ESPs and CCAs’ procurement strategies should not be dictated by the Commission.

Moreover, the Commission does not have authority over the prices paid (or charged) by ESPs or CCAs. How would it be determined whether an ESP or a CCA can purchase storage on

a “cost effective” basis? Must ESPs and CCAs agree to purchase energy storage regardless of the cost? Would the ESP or CCA be required to purchase the same amount of storage (proportionately) as the IOU, regardless of whether the ESP or CCA can purchase storage on a cost effective basis? How would a “cost containment” provision apply to ESPs and CCAs? ESPs and CCAs should be able to structure their energy mix in the most efficient, cost-effective manner. A storage procurement mandate could force ESPs and CCAs to obtain storage that is not economically justified.

Second, the ACR proposes that the IOUs’ storage “procurement” (“solicitation”) targets should be offset by storage capacity projects previously approved by the Commission. The ACR does not address how ESP or CCA storage targets would be affected by the offsets to the IOUs’ storage targets. If the costs of an IOU’s previously approved storage project have been allocated to all system customers, the storage targets of ESPs and CCAs must be offset by the capacity of the storage project in a proportionate amount. Providing storage procurement “offsets” to the IOUs, but not to ESPs and CCAs, would place ESPs and CCAs at a competitive disadvantage.

Third, the ACR proposes to exclude, from the energy storage reverse auction mechanism, any pumped hydro resources. ACR at p. 17. Presumably, the ACR’s proposed exclusion is because pumped hydro is a “more well-established technology” with “proven benefits and the ability to participate in California markets today” ACR at pp. 4-5. This proposal is unduly discriminatory and has no basis in AB 2514.

AB 2514 (P.U. Code Section 2835(a)(4)) states that in order to qualify as an “energy storage system,” the storage technology shall “use mechanical, chemical or thermal processes to store energy that was generated at one time for use at a later time.” Pumped hydro meets the statutory definition. If the Commission is going to impose a storage procurement mandate, the Commission may not lawfully pick “winners and losers” among energy storage technologies.

All storage technologies that meet the eligibility requirements of AB 2514 should be allowed to compete if the Commission adopts storage procurement targets.

V.

RESPONSES TO SPECIFIC QUESTIONS ABOUT THE STRAW PROPOSAL

Shell Energy responds to the questions in the ACR as follows:

a. Please comment on this proposal overall, with emphasis on the proposed procurement targets and design.

Response: If the Commission decides to impose energy storage procurement targets on the IOUs, the Commission must ensure that the costs of any procurement (generation)-related storage are allocated exclusively to the IOUs' bundled sales customers. Direct access customers and CCA customers should not be required to subsidize the cost of the IOUs' procurement-related activities, including generation-related storage, that benefit bundled sales customers.

In addition, ESPs and CCAs should not be required to meet the proposed energy storage procurement targets, for two reasons: First, ESPs and CCAs are not involved in planning, operating or maintaining the IOUs' transmission and distribution systems. ESPs and CCAs should not be responsible for acquiring energy storage to address the IOUs' transmission and distribution reliability. If the Commission decides to require the IOUs to obtain energy storage to meet transmission/distribution reliability needs, the costs of this energy storage should be allocated to all customers, including direct access and CCA customers, through their transmission/distribution rates.

Second, ESPs and CCAs should not be required to meet procurement targets for procurement (generation)-related storage. Subject to RPS and RA requirements, ESPs and CCAs should have the flexibility to meet their procurement requirements with a portfolio of resources that they freely choose. Energy storage should not be required in the place of firm transmission,

demand response or RPS supplies. There is no justification for providing a preference for energy storage.

b. Comment on whether any of the projects proposed to count toward the procurement targets [should] be excluded, or any additional projects included, and on what basis.

Response: To the extent that energy storage procurement targets are established, pumped hydro should be included as a storage resource that is eligible for participation. Pumped hydro is an “energy storage system” within the meaning of AB 2514.

c. Comment on how actual operational deployment should be defined for PIER- and EPIC-funded projects potentially eligible to count toward a utility’s procurement target.

Response: No comment.

d. Comment on how any utility’s procurement that exceeds a target in one year should be addressed and considered for future procurement targets.

Response: No comment.

e. Comment on whether and to what extent utilities should be permitted flexibility in procuring among the use-case “buckets” (transmission, distribution, and customer-sited) of energy storage within one auction, and whether a minimum amount in each “bucket” must be targeted.

Response: Shell Energy does not object to granting the IOUs flexibility in the purchase of storage among the various use-case “buckets.” The cost of any procurement (generation)-related storage, however, must be allocated exclusively to the IOUs’ bundled sales customers.

The issue of granting such “bucket” flexibility highlights a key difference between IOUs and other LSEs as relates to an energy storage procurement program. ESPs and CCAs have no reason - - and therefore no practical ability - - to obtain transmission or distribution-related storage. If a storage procurement target were to be imposed on ESPs and CCAs, these LSEs would have no flexibility to allocate their storage purchases among the various “buckets.” Granting “bucket” flexibility to the IOUs would in turn create uncertainty among ESPs and CCAs as to how much storage they must purchase for their procurement-related bucket

(function). This would place ESPs and CCAs at a competitive disadvantage in the procurement market.

f. Comment on the appropriate “off ramps” for relief from procuring up to each target and what metrics should be used to evaluate the appropriateness of the off ramps.

Response: The concept of an “off-ramp” (due to the LSE’s inability to purchase storage on a “cost effective” basis) is difficult, if not impossible for ESPs and CCAs. The Commission does not regulate the cost of ESP/CCA procurement, and the Commission does not regulate the prices charged by ESPs and CCAs to their customers. Although the Commission may determine a “maximum price” for IOU procurement of storage, the Commission does not approve ESP or CCA procurement contracts. Moreover, if the Commission were to establish an “off-ramp” for the IOUs after an ESP or a CCA has entered into a binding contract for storage capacity, the ESP or the CCA could be placed at a severe competitive disadvantage.

g. Comment on how this proposal may be coordinated with Renewable Portfolio Standard procurement plans, as set out in Public Utilities Code section 2837.

Response: This question (and P.U. Code Section 2837) applies to the IOUs (“electrical corporations”), not to ESPs or CCAs. Nevertheless, energy storage can be obtained to “firm” and “balance” deliveries from RPS-eligible facilities. In addition, in the RA proceeding (R.11-10-023), the Commission should address how energy storage can be obtained by an LSE to meet its new flexible capacity procurement requirement, beginning in the 2015 compliance year. See D.13-06-024 (June 27, 2013).

h. Comment on the options presented for ESPs and CCAs to either a) be required to procure an equivalent amount of storage projects commensurate with the load they serve or b) have their customers assessed the costs of the IOU procurement of energy storage projects through a cost allocation mechanism.

Response: Shell Energy opposes the ACR’s proposal. As discussed above, ESPs and CCAs should not have an obligation to purchase storage for the IOUs’ transmission/distribution

functions. As for the procurement/generation function, as well as the customer function, ESPs and CCAs should have the option, but not the obligation, to purchase energy storage as a part of the procurement portfolio strategy that they develop with their customers.

With respect to cost allocation, the CAM should not apply to costs incurred by the IOUs for storage. If the IOUs acquire energy storage to meet transmission/distribution reliability needs, the costs should be allocated to all customers in their transmission and distribution rates. If the IOUs obtain storage to meet the procurement/generation function, the costs should be included exclusively in bundled sales customers' rates.

i. Comment on how the preliminary results of the cost-effectiveness models should be applied to the question of setting procurement targets.

Response: No comment.

j. Based on the preliminary results, should the utilities set a cost cap for offers to be submitted in the 2014 auction? If yes, what should the cap be and how should the auction be structured to incorporate the cap?

Response: As noted in response to Question "f" above, the issue of a "cost cap" for energy storage underscores the unreasonableness of imposing an energy storage procurement obligation on ESPs and CCAs. If an energy storage procurement obligation were to be imposed on ESPs and CCAs, these LSEs could enter into energy storage contracts in order to meet their procurement obligation, while the IOUs escape their procurement obligation through the imposition of a cost cap. It is preferable to allow, but not require, ESPs and CCAs to meet a portion of their procurement obligation through the acquisition of energy storage.

VI.

CONCLUSION

The Commission should not establish a "mandate" for ESPs and CCAs to purchase energy storage. ESPs and CCAs should have the flexibility to rely upon storage and/or other resources to meet their energy and capacity procurement requirements.

Moreover, ESPs and CCAs should not be required to purchase (or pay for) energy storage that provides a “grid reliability” function. Grid reliability is the responsibility of the IOUs, with oversight by the CAISO and this Commission. To the extent that the Commission, the CAISO, or the IOUs determine that energy storage should be obtained to meet grid reliability, the cost of any such storage should be allocated to all customers (including direct access and CCA customers) in their transmission/distribution rates.

If, notwithstanding Shell Energy’s comments, the Commission adopts proportional storage procurement targets that must be met by ESPs (for the procurement function), ESPs must have flexibility to meet the storage procurement obligation on their own terms. The proposed “solicitation” process and the proposed “reverse auction mechanism” should not be imposed on ESPs.

Finally, any storage procurement obligation should be technology neutral. Specific storage technologies such as pumped hydro should not be excluded from eligibility.

Respectfully submitted,



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