

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

Order Instituting Rulemaking to consider policy and implementation refinements to the Energy Storage Procurement Framework and Design Program (D.13-10-040, D.14-10-045) and related Action Plan of the California Energy Storage Roadmap.

FILED
PUBLIC UTILITIES COMMISSION
MARCH 26, 2015
SAN FRANCISCO, CALIFORNIA
RULEMAKING 15-03-011

**COMMENTS OF THE WESTERN POWER TRADING FORUM ON
ISSUES RELEVANT TO THIS PROCEEDING'S SCOPE**

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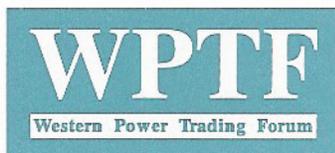


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In accordance with the directives provided in this Rulemaking, the Western Power Trading Forum (“WPTF”) submits these comments on issues relevant to this proceeding’s scope. WPTF further provides input on procedural issues that parties were asked to address in their comments.

I. INTRODUCTION

The Rulemaking directs that parties’ comments must “identify the party and interest of the party in this proceeding (*see* Rule 1.4(b)); raise any objections to or recommendations regarding this order’s determinations as to categorization of the proceeding as quasi-legislative, the need for hearing, issues to be considered, or scheduling (*see* Rule 6.2); and, identify any other procedural or substantive issues parties believe to be relevant.”¹

A. Identity and Interest of WPTF in This Proceeding

WPTF is a California non-profit, mutual benefit corporation. It is a broadly based membership organization dedicated to enhancing competition in Western electric markets in

¹ Rulemaking, at p. 16.

order to reduce the cost of electricity to consumers throughout the region while maintaining the current high level of system reliability. WPTF actions are focused on supporting development of competitive electricity markets throughout the region and developing uniform operating rules to facilitate transactions among market participants. Members of WPTF are actively engaged in the development of storage projects and both have in the past and will in the future participate in California utility storage procurement efforts such as that which was conducted by Southern California Edison Company (“SCE”) in connection with its 2013 Local Capacity Requirements (“LCR”) Request for Offers (“RFO) for the Western Los Angeles Basin and Moorpark Sub-Area.² As a result, WPTF continues to have a strong interest in the storage policy and implementation questions that were identified in the preliminary scoping memo contained in the Rulemaking.³

B. Proceeding Category and Need for Hearings

The Rulemaking preliminarily determines that this proceeding is quasi-legislative as defined in Rule 1.3(d). It further states that while it appears that the issues may be resolved through comments and workshops without the need for evidentiary hearings, a final determination on the need for hearings will be made in the assigned Commissioner’s scoping

² On February 13, 2013, the Commission issued D.13-02-015 (“Track 1 decision”) in the Long Term Procurement Plan (“LTPP”) proceeding. The Track 1 decision ordered SCE to procure between 1,400 and 1,800 Megawatts (“MW”) of electrical capacity in the Western Los Angeles sub-area of the Los Angeles basin (“Western LA Basin”) local reliability area to meet long-term local capacity requirements by 2021, largely due to the expected retirement of once-through-cooling (“OTC”) generation facilities. D.13-02-015 also authorized SCE to procure between 215 and 290 MW of electric capacity to meet local capacity requirements in the Moorpark sub-area of the Big Creek/Ventura local reliability area. SCE’s procurement authorizations for each area included certain specified amounts of Preferred Resources and energy storage.

³ Rulemaking, at pp. 9-16.

memo.⁴ WPTF concurs with the categorization of the proceeding and agrees that hearings likely will not be necessary. Instead, workshops, staff, utility and/or third party proposals and filed comments should be sufficient to establish a full record.

II. COMMENTS ON ISSUES RELEVANT TO THIS PROCEEDING’S SCOPE

The preliminary scope of the proceeding as describes in the Rulemaking calls on parties to address: (1) outstanding implementation issues pertaining to D.13-10-040 (“Decision Adopting Energy Storage Procurement Framework and Design Program”); (2) policy issues raised in D.14-10-045 (“Decision Approving SDG&E Company, PG&E Company, and SCE Company’s Storage Procurement Framework and Program Applications for the 2014 Procurement Period”); (3) Action Plan Items raised in the California Energy Storage Roadmap (“Storage Roadmap”); and (4) emerging policy and implementation issues not covered in D.13-10-040, D.14-10-045 or the Storage Roadmap. WPTF offers below comments pertaining to certain of these topics.

A. Issue One – Implementation Issues

WPTF concurs in the need to develop a Measurement and Evaluation (“M&E”) plan for 2016 described in Subsection 1(a) of Issue One. It will be highly important to determine on an ongoing basis whether the energy storage (“ES”) procured by the investor owned utilities (“IOUs”) and other load-serving entities (“LSEs”) in fact meets the stated purposes of optimizing the grid, integrating renewables, and/or reducing greenhouse gas emissions. The M&E studies should facilitate all parties to understand lessons learned from the collection, analysis, and reporting of energy storage operational data as storage market transformation occurs. The

⁴ Rulemaking, at p. 17.

development of best practices for the safe operation of energy storage technologies is also obviously an issue that must be examined closely.

WPTF is particularly interested in Subsection 1(b) of Issue One, which is described as “Assess best practices and challenges within the procurement process in the context of a future proceeding and recommend, if needed, adjustments to the process.” D.13-10-040 directed the IOUs to file procurement applications in biennial energy storage procurement periods 2016, 2018 and 2020 with any proposed modifications based on data and experiences from previous procurement periods. In addition, individual IOU procurement applications containing storage elements have been filed, such as the SCE LCR applications cited above.⁵ The Rulemaking states that “In this rulemaking, we will strive for continuous improvement in energy storage program details and make appropriate recommendations consistent with overall program objectives.” This is as it should be. It is in that context that WPTF raises the following comments and suggestions as to best practices that should be adopted going forward. WPTF notes that in its recent LCR applications, SCE cited several justifications for limiting its procurement of in front of the meter energy storage (“IFOM ES”) including (a) debt equivalence; and (b) ancillary services value. Each topic is addressed below.

1. Debt Equivalence Constraints on In Front of the Meter Storage Should be Addressed.

With regard to debt equivalence, SCE explained quite clearly in its opening testimony how it arises from long-term contracts and other long-term financial commitments that are not included as debt on the balance sheet, but are viewed as debt by credit rating agencies. The overall effect of debt equivalence is to make SCE’s balance sheet more leveraged, thereby

⁵ See, SCE Applications A.14-11-012 and A.14-11-016 (“LCR Applications”).

reducing the quality of SCE's cash flow in credit rating calculations.⁶ If SCE's debt equivalents increase by a significant amount, it could result in a downgrade of SCE's credit rating.

In its rebuttal testimony, SCE noted that the utility and its independent evaluator analyzed the offers that resulted from the initial selection set of energy storage bids and determined that "adjustments to the constraints and further analysis of the optimization results, as described in SCE's LCR RFO Western LA Basin testimony, would be prudent. One of the adjustments SCE made was to limit the quantity of IFOM ES to 100 MW because of the uncertainty regarding the impact of IFOM ES on SCE's balance sheet as debt equivalents.⁷ Also, in order to minimize the debt equivalence issue, SCE included an "Embedded Put Option" in the IFOM ES contracts in an attempt to have the IFOM ES contracts determined to be operating leases (which has a lower effect on debt equivalence determinations by credit agencies) rather than capital leases. SCE noted that IFOM ES remains an emerging technology with unknowns as to how these projects will operate and participate in markets and that there are many uncertainties that may impact the debt equivalence issue.

To be clear, WPTF does not criticize SCE for its actions here as the utility obviously spent careful attention on this issue and made a determination it felt best given the uncertain circumstances. Nevertheless, this concern (and others) led SCE to limit procurement of IFOM ES to 100 MW. WPTF believes that IFOM ES is an important element of the state's energy mix moving forward and that it is therefore incumbent upon the Commission to analyze this issue in greater detail in this proceeding. Therefore, as part of the Issue One, Subsection 1(b) analysis of ongoing implementation issues, the scoping memo to be issued in this proceeding should

⁶ A.14-11-012, SCE Opening Testimony at pp. 31-32.

⁷ A.14-11-012, SCE Rebuttal Testimony at pp. 3-4.

specifically call for further analysis of this issue to determine whether the constraints on IFOM ES due to debt equivalence concerns can be addressed without imposing artificial limits on the IOUs' procurement of IFOM ES.

2. Concerns about the Ancillary Services Value of Storage Should be Addressed.

As noted in SCEs LCR Applications, IFOM ES can participate directly in CAISO markets, similar to gas-fired generating (“GFG”) resources.⁸ Certain concerns with regard to the impact of IFOM ES on ancillary services were noted in SCE’s opening testimony in its West LA LCR Application:

Amount of IFOM ES MW Selected: As discussed in Section IV.E, SCE has some concerns related to IFOM ES and thus elected to limit the amount of procurement of IFOM ES in the optimization. In addition, SCE’s valuation of IFOM ES offers assumed unconstrained operations in CAISO markets leading to significant assessed AS revenues from participating in AS markets during all hours. Current uncertainty around the interconnection of IFOM ES, which may result in restrictions on charging ability during peak hours, and uncertainty on how IFOM ES will actually participate in CAISO markets, warranted SCE to assume that its IFOM ES valuation results may be higher than what will be achieved. Uncertainty around the valuation results also created additional risk for potential capital lease accounting and higher amounts of debt equivalence, as the valuation analysis is being used to set the strike prices for the Embedded Put Option.⁹

SCE went on to explain further in its rebuttal testimony in that proceeding that the selection optimization process it used with regard to IFOM ES resulted in the selection of a single 100 MW resource “at the existing Alamitos site that will be interconnected to the transmission system at 220 kV in an area where there is less likelihood of charging restrictions and

⁸ See, SCE Applications A.14-11-012 at p. 86.

⁹ SCE Opening Testimony at p. 53.

congestion, which alleviates some of the concern regarding the ability of IFOM ES to capture ancillary services revenues.”¹⁰

Therefore, it is clear that ancillary services issues contributed to uncertainty in the relative valuation results for IFOM ES in the recent SCE RFO. Once again, WPTF does not bring up this issue to in any way criticize the utility for its analysis here. Rather, we simply note that the concerns about potential charging constraints hindering the ability of IFOM ES to participate in ancillary services markets should be addressed in this proceeding. It would be helpful if the California Independent System Operator (“CAISO”) and other interested stakeholders were to engage in a reasoned discussion and analysis of this issue to determine if there are ways to provide greater assurances in the future to utilities considering IFOM ES as a resource option so that the market for this valuable product is not unnecessarily constrained by uncertainty with respect to ancillary services issues.

B. Phase Two - Policy Issues Raised in D.14-10-045

1. Cost Allocation and PCIA Issues

The preliminary scoping memo identifies cost allocation for dual use energy storage facilities and calculation of the stranded costs of energy storage projects recovered through the Power Charge Indifference Adjustment (“PCIA”) as issues to be resolved in this proceeding. Additionally, the Rulemaking includes the issue of whether cost recovery under the PCIA should be allowed to extend beyond the normal 10-year recovery period.¹¹ WPTF concurs with the inclusion of these issues is appropriate although it has been concerned that for some time

¹⁰ SCE Rebuttal Testimony at p. 7.

¹¹ Rulemaking, at pp. 12-13.

expansion of the PCIA is having a deleterious effect on the development of retail competition in the state. Therefore, it is eager to engage in discussions on this topic.

In a similar context, WPTF notes that Ordering Paragraph 1(6) of D.14-10-045 directs the utilities to submit, after consultation with affected parties, a “Joint IOU Protocol” to calculate the above-market stranded costs associated with the IOUs’ procurement of energy storage projects for bundled customers within one year of their December 1, 2014 energy storage solicitations.¹² Although as a general rule stranded costs are recovered through the PCIA charged to departing load customers (both to direct access (“DA”) and community choice aggregation (“CCA”), WPTF understands that the IOUs are more likely to propose that their respective energy storage procurement costs are to be recovered from all customers - bundled, DA and CCA - through non-bypassable transmission and distribution (“T&D”) charges, the Cost Allocation Mechanism (“CAM”), and/or public purpose charges. Although the PCIA is not applicable to costs recovered through T&D, CAM, or public purpose charges and therefore may not apply to many of the utility storage procurements, the fact that certain storage costs may be included in future PCIA vintages means that it is appropriate in this proceeding to consider the IOUs’ Joint Protocol and the scoping memo to be issued should identify this issue as being within scope.

2. Storage Target Procurement Issues for Non-Utility LSEs

The Commission committed in D.14-10-045 to consider adjustments to the non-utility LSE energy storage procurement targets that were established in D.13-10-040 to reflect the IOUs’ continued cost recovery from all customers through non-bypassable charges. Specifically, there needs to be a methodology to reflect the fact that although non-utility LSEs were initially given slightly lower storage procurement targets in recognition that the costs of some of the

¹² D.14-10-045, Ordering Paragraph 1(6), at p. 119.

utility energy storage procurement were being paid by direct access customers, there will come a time when continued imposition of the costs of more utility energy storage procurement will more than make up for the lower target imposed on the ESPs. In short, unless specific tracking mechanisms are put in place, it appears that over time DA and CCA customers may be required to pay for more storage costs than bundled customers, through the addition of utility CAM costs to the DA/CCA customers' own suppliers' storage costs.¹³ This issue was to be “considered in a future proceeding with a broader audience of stakeholders.”¹⁴ WPTF believes and recommends that this is the appropriate future in which to consider this issue.

3. Storage Project Approval Process Issues

Although it is not specifically listed in the preliminary scoping memo under this topic, a policy issue that was discussed in the proceeding leading up to D.14-10-0-45 was whether or not the utilities should use full-fledged applications for approval of the procurement authorized in the decision or whether Tier 3 advice letters requiring Commission approval would be sufficient. WPTF noted in its comments on the proposed decision that led to D.14-10-045 that the use of formal applications is a much more involved and lengthy procedure than the use of Tier 3 advice letters¹⁵ as they typically involve protests, a prehearing conference, issuance of a scoping memo, discovery, possible testimony and hearings, briefing and comments and reply comments on a proposed decision. This means it is reasonable to anticipate that requiring an application will

¹³ It should be noted that this same issue arises when the IOUs are permitted to count certain energy storage projects funded through public purpose charges (see D.13-10-040 at p. 32), such as SGIP since public purpose charges are also collected from all customers on a non-bypassable basis.

¹⁴ D.14-10-045, p. 47.

¹⁵ Significantly, the advice letter process is also the accepted procedure for approval of IOU proposed renewable portfolio standard (“RPS”) contracts, which may be integral to many storage projects.

mean at least a year, if not the full statutory 18-month process, will be utilized before the IOUs' respective applications are approved.

Nevertheless, the decision found that “the application process is the far superior process to use for approval of contracts for initial storage procurement projects”¹⁶ and directed the utilities “to file an Application seeking Commission approval of the contracts for the winning bids selected from the 2014 solicitation to be submitted no later than one year from December 1, 2014.”¹⁷ By raising the issue here, WPTF does not seek to modify that determination. However, we believe it would be prudent to have the scope of the upcoming proceeding specifically include input from parties on the issue of whether future utility requests for storage procurement authority after the initial round of applications may be submitted by utility advice letters rather than through the full application process. The state and this Commission are committed to the advancement of storage project development and it would be good if the future procurement process is not unduly delayed by administrative procedures that are unnecessary and superfluous.

III. CONCLUSION

In conclusion, WPTF notes that the preliminary scoping memo states that “In this rulemaking, we will strive for continuous improvement in energy storage program details and make appropriate recommendations consistent with overall program objectives.”¹⁸ WPTF believes that the issues it discusses herein and the recommendations it makes will contribute to that process meaningfully. We therefore request that the following topics be specifically identified as being within scope in the scoping memo to be issued in this proceeding: (1)

¹⁶ D.14-10-045 at p. 103.

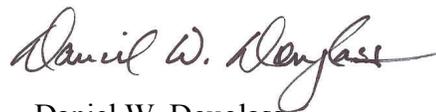
¹⁷ Id at p. 104.

¹⁸ Rulemaking, at p. 10.

constraints on utility procurement of in front of the meter storage caused by the impact of debt equivalence issues; (2) constraints on utility procurement of in front of the meter storage caused by the impact of ancillary services issues; (3) cost allocation and PCIA issues applicable to departing load customers; (4) the reconciliation of the storage procurement targets for non-utility LSEs with the additional costs imposed on their customers through the CAM; and (5) the utility energy storage procurement approval process going forward.

WPTF thanks the Commission and Staff for their attention to these comments.

Respectfully submitted,



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