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**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.

Rulemaking 15-03-011  
(Filed March 26, 2015)

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON  
ASSIGNED COMMISSIONER AND ASSIGNED ADMINISTRATIVE LAW JUDGE'S  
SCOPING MEMO AND RULING SEEKING PARTY COMMENTS**

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**I.**

**INTRODUCTION**

Pursuant to the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure and the Assigned Commissioner and Assigned Administrative Law Judge's Scoping Memo and Ruling Seeking Comments dated January 5, 2016 ("Scoping Memo"), Southern California Edison Company ("SCE") hereby submits its reply to comments on Track 2 Issues.<sup>1</sup> Consistent with its opening comments and its reply comments herein, SCE asks the Commission to:

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<sup>1</sup> Thirty parties filed opening comments in addition to SCE: Alliance of Automobile Manufacturers and American Honda Co. ("Alliance"); Alliance for Retail Energy Markets and the Direct Access Customer Coalition ("DACC/AReM"); Association of California Water Agencies; Bison Peak Pumped Storage; Brookfield; California Independent System Operator ("CAISO"); California Hydrogen Business Council; Calpine; Marin Clean Energy and City of Lancaster; California Energy Storage Alliance ("CESA"); Clean Coalition; California Large Energy Consumers Association ("CLECA"); Eagle Crest Energy; EDF Renewable Energy Inc.; Environmental Defense Fund

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- Reject parties' requests to increase energy storage procurement targets because the Commission's market transformation goals are being achieved, and no need determination has been made;
- Uphold the Commission's previous determination that procurement set-asides for particular technologies or applications are not compatible with the Commission's market transformation goals based on technology neutral procurement;
- Reject DACC/AReM's flawed proposal to track and allocate energy storage procurement costs;
- Adopt SCE's proposal to establish uniform targets for all Load Serving Entities ("LSEs"), including the investor-owned utilities ("IOUs"), Direct Access ("DA") Energy Service Providers ("ESPs") and Community Choice Aggregators ("CCAs"), and then equitably allocate the costs and benefits of IOU energy storage procurement done on behalf of the system;
- Hold workshops concerning: (1) the Power Charge Indifference Adjustment ("PCIA") and the recovery of stranded costs of energy storage procurement on behalf of bundled customers; (2) multiple-use energy storage applications; and (3) community storage;
- Include V1G, or managed charging, as an eligible energy storage technology; and
- Reject parties' overly broad definition of "station load" and ensure that similarly situated customers are treated similarly with respect to station power determinations.

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("EDF"); Green Power Institute ("GPI"); Ice Energy; LS Power; Natural Resource Defense; Office of Ratepayer Advocates ("ORA"); Pacific Gas and Electric Company ("PG&E"); Powertree Services, Inc.; San Diego County Water Authority; San Diego Gas & Electric Company ("SDG&E"); Shell Energy North America; Sierra Club; Southern California Gas Company; The Utility Reform Network ("TURN"); and the Western Power Trading Forum ("WPTF").

## II.

### **REPLY COMMENTS**

#### **A. The Commission Should Not Increase Energy Storage Procurement Targets**

In their opening comments, Sierra Club and CESA argue for up to nearly a four-fold increase in the current energy storage procurement targets.<sup>2</sup> In contrast, San Diego Gas & Electric (“SDG&E”), Pacific Gas and Electric (PG&E), the Office of Ratepayer Advocates (“ORA”), The Utility Reform Network (“TURN”), Calpine, the California Large Energy Consumer Association (“CLECA”), and the Direct Access Customer Coalition and the Alliance for Retail Energy Markets (“DACC/AReM”) all maintain that it is premature to consider increasing or revising energy storage procurement targets at this time.<sup>3</sup> SCE agrees that it would be inappropriate to raise the energy storage procurement targets because (1) the Commission’s goal of market transformation is already being achieved with current targets; and (2) this rulemaking is not the appropriate venue for determining least-cost, integrated resource planning solutions. SCE urges the Commission to reject CESA’s and Sierra Club’s proposals.

#### **1. The Current Procurement Targets Are Already Transforming the Energy Storage Market**

As noted by SCE and other parties in Opening Comments, the Commission initially established procurement targets in Decision (“D.”) 13-10-040 to support the goal of market transformation.<sup>4</sup> Therefore, in assessing targets, the Commission should first consider whether adequate progress is being made in transforming the energy storage market. As demonstrated by the IOUs’ successful progress to-date, the market is indeed transforming at a very rapid pace.

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<sup>2</sup> See Sierra Club Opening Comments at 2; CESA Opening Comments at 10.

<sup>3</sup> See SDG&E Opening Comments at 2; PG&E Opening Comments at 1-2; ORA Opening Comments at 1-3; TURN Opening Comments at 5; Calpine Opening Comments at 1-2; CLECA Opening Comments at 2; DACC/AReM Opening Comments at 11.

<sup>4</sup> See D.13-10-040 at 7.

All IOUs are in compliance with their first biennial procurement targets, and SCE is well ahead of the pace required by those targets. Because market transformation is already underway, increasing or revising procurement targets is not necessary and should be avoided.

**2. The Commission Has Opened a New Rulemaking with the Express Purpose of Addressing System Needs In Light of Senate Bill 350 and Developing an Integrated Resource Plan**

In arguing for higher targets, Sierra Club and CESA cite Senate Bill (“SB”) 350 and the benefits provided by storage for renewable integration and GHG reduction to further California’s climate change goals. SCE supports the effort to accomplish the state’s climate change goals, however, this proceeding is not the appropriate venue to determine which resources are needed to achieve state climate change goals, or integrate increased renewable generation due to SB 350, if such needs exist. Rather, the Commission recently opened a new “Integrated Resource Plan” (“IRP”) rulemaking with the express purpose of determining system needs in light of SB 350 and the most efficient and cost-effective means to achieve the State’s GHG goals.<sup>5</sup> CESA and Sierra Club prejudge the outcome of that proceeding by presuming a specific resource need before the Commission has even held a prehearing conference in that proceeding much less undertaken any analysis.<sup>6</sup> Until the Commission has determined in the IRP proceeding that such needs exist, the Commission should not mandate additional “need based” procurement in the Energy Storage OIR.

Further, while this proceeding should not presume a resource need in general, it should also not presume the need for energy storage in particular. Rather, identifying the types of resources needed to facilitate renewable integration and the State’s GHG goals should be

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<sup>5</sup> On Feb. 11, 2016, the Commission approved R.16-02-007 to establish the 2016 Long Term Procurement Plan (LTPP) proceeding, including to develop an electricity IRP framework in accordance with SB 350 and to coordinate and refine LTPP requirements.

<sup>6</sup> Studies that have not been fully vetted by parties and the Commission are not sufficient grounds for an additional procurement mandate.

considered in the IRP OIR. In that proceeding, energy storage and all other resource technologies can be evaluated together for their ability to support and further California’s climate goals in a cost-effective manner. Implementation of identified energy storage needs, if any, can then be coordinated with this proceeding.

**B. A Set-Aside for Particular Eligible Technologies or Applications Is Inappropriate and Inconsistent With the Energy Storage Procurement Framework**

A number of parties requested set-aside targets for particular technologies or energy storage applications.<sup>7</sup> SCE urges the Commission to reject such requests, which are contrary to the Commission’s market transformation goals and technology neutrality. In establishing the Energy Storage Procurement Framework, the Commission specifically considered and rejected the creation of procurement set-asides or carve outs, stating:

Adhering to strict targets or “carve outs” may inappropriately or unfairly advantage or disadvantage specific participants. For this reason, we do not find it appropriate to establish “sub-buckets” such as “ancillary services” and “load duration.” **Such sub-buckets are not compatible with market transformation goals based on technology neutral procurement.**<sup>8</sup>

The reasoning used by the Commission in that decision remains sound today: procurement carve outs are likely to only benefit specific developers and vendors. Conversely, flexible, technology-neutral procurement will encourage market transformation while maximizing customer value.

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<sup>7</sup> CAISO Opening Comments at 4 (recommending consideration of targets specifically for pumped storage); CESA Opening Comments at 15 and 22-23 (supporting specific targets for pumped storage as well as community storage).

<sup>8</sup> D.13-10-040 at 39 (emphasis added).

**C. Targets Must Be Equalized Amongst All LSEs Before Equitable Allocation of Energy Storage Credit Can Be Achieved**

**1. The Commission Should Reject DACC/AReM's Flawed Proposal**

DACC/AReM expresses concern about parity between customers of ESPs/CCAs and customers of IOUs.<sup>2</sup> SCE shares this concern. Indeed, SCE has consistently argued that all LSEs should have the same target expressed as a percentage of peak load. That said, DACC/AReM's proposal to address this concern does not ensure customer indifference at all, and instead perpetuates the discrepancy in storage mandates between customers of IOUs and customers of ESPs/CCAs.

DACC/AReM proposes to leave unchanged the current discrepancy in nominal targets, in which customers of ESPs/CCAs have a target of 1% of peak load and customers of IOUs have a fixed MW target that equates to about 2.5% of their forecasted peak load.<sup>10</sup> Rather than align all LSEs' targets to be the same percentage of peak load, DACC/AReM proposes to require all LSEs (and the Commission) to continuously track storage procurement for all LSEs against a common percentage of peak load metric. The ESPs/CCAs would then receive "credit" *for tracking purposes* for their share of storage procured by IOUs on behalf of all customers. If the tracking mechanism ever indicates "parity" has been achieved, *i.e.*, the tracking mechanism indicates ESPs/CCAs have procured equal to or greater than the peak load percentage target faced by IOUs, DACC/AReM suggests that their customers no longer be required to pay for the costs of energy storage from which they continue to benefit.

The Commission should reject DACC/AReM's self-serving proposal. Their proposal would allow inequity to exist, so long as that inequity favors customers of ESPs/CCAs. DACC/AReM's proposal maintains the discrepancy in targets when it favors customers of

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<sup>2</sup> DACC/AReM Opening Comments at 2.

<sup>10</sup> This percentage would change should departing load levels increase.

ESPs/CCAs, but then switches to a methodology that mandates “parity”<sup>11</sup> when the discrepancy favors customers of IOUs. This “heads I win, tails you lose” approach to policymaking is patently unfair.

Table II-1 below illustrates how DACC/AReM’s proposal perpetuates non-parity rather than remedies it. This table contains data provided by DACC/AReM,<sup>12</sup> with an additional column added to reflect statewide values. Note that although DACC/AReM demands immediate mitigation for ESPs in SCE’s territory, on a statewide basis, by DACC/AReM’s own calculations, the statewide obligation of ESPs is only 2.02%, still well below that of the IOUs.

**Table II-1**

	<b>PG&amp;E</b>	<b>SCE</b>	<b>SDG&amp;E</b>	<b>Statewide</b>
<b>1 IOU Target As % 2020 Peak Load</b>	2.30%	2.50%	2.50%	
<b>2 DA Cap in GWh</b>	9,520	11,710	3,562	24,792
<b>3 ESP 1% Target in GWh</b>	95.2	117.1	35.6	248
<b>4 ESP 1% Target in MW</b>	17	21	6	44
<b>5 Total MW Associated with Non-Bypassable Charges</b>	12.5	294.23	35.81	343
<b>6 DA MW Share of Non-Bypassable Charges</b>	2	38	5	45
<b>7 ESP Target Plus DA Non-Bypassable Charges (MW)</b>	19	59	11	89
<b>8 Total DA Storage Obligation in Percent</b>	1.10%	2.80%	1.80%	<b>2.02%</b>

Additionally, if the DACC/AReM proposal is implemented to require SCE to allocate some storage credit to ESPs, the statewide ESP obligation would diminish even further. Under DACC/AReM’s proposal, the statewide ESP obligation may remain well under the IOU target, and can never exceed it.

Furthermore, DACC/AReM suggests that once “parity” – as they have defined it – has been achieved, ESP customers should no longer be required to pay for the costs of energy storage from which they continue to benefit. This is inappropriate. Energy storage projects that

<sup>11</sup> As discussed in more detail below, allowing DA and CCA customers to cease paying for the energy storage that continues to benefit them also fails to achieve “parity” and swings the pendulum too far in the favor of DA/CCA customers.

<sup>12</sup> See DACC/AReM Opening Comments at 4.

are eligible for recovery through delivery rates (*i.e.* Distribution, which also collects the costs of the Self Generation Incentive Program (“SGIP”) and Permanent Load Shifting (“PLS”) programs, and the New System Generation charges) are, by definition, projects that provide benefits to all delivery customers. The Commission reaffirmed this notion in D.13-02-015 when authorizing additional Cost Allocation Mechanism (“CAM”) procurement to meet local capacity requirements in the West Los Angeles Basin and Moorpark regions, stating that because the newly procured generation, which included energy storage, is needed to meet local or system area reliability needs **for the benefit of all customers** in the IOU’s service area, each customer **must pay their fair share** for the benefits that flow to them.<sup>13</sup> DACC/AReM’s refusal to acknowledge those benefits<sup>14</sup> should not relieve DA customers from their legislatively-mandated obligation<sup>15</sup> to pay for their share of CAM-eligible energy storage costs. As such, DACC/AReM’s proposal to eliminate the recovery of storage procurement costs through non-bypassable charges should be rejected.

Stated simply, the target methodology established in D.13-10-040 creates a discrepancy in nominal targets that is assumed to be mitigated by non-bypassable charges that accrue to unbundled customers to cover the costs of storage procured by the IOU on behalf of all customers. This method creates uncertainty as to whether parity will be achieved. If DACC/AReM believes the lower target for ESPs/CCAs in the current framework is appropriate, with its inherent uncertainty, DACC/AReM must also accept the uncertainty that the ultimate outcome may be less favorable than it predicted. Alternatively, if parity (and more specifically, certainty of parity) is the goal (as SCE has long argued), there is a simple and straightforward solution: establish uniform targets, and a system for allocating both cost and benefit to ESPs/CCAs for storage procured by IOUs on behalf of all customers. DACC/AReM invited the

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<sup>13</sup> D.13-12-015 at 106 (emphasis added).

<sup>14</sup> DACC/AReM Opening Comments at 9.

<sup>15</sup> Public Utilities Code Section 365.1(c)(2)(A)-(B).

IOUs to propose an alternative to its proposal.<sup>16</sup> SCE details what it maintains is a simpler, and more equitable proposal below.

**2. Once Targets Are Equalized Amongst All LSEs, Allocation of Credit for Storage Procured on Behalf of All Customers Is a Simple Matter**

With uniform targets established, a process could mirror the cost CAM, which applies to capacity procured by IOUs on behalf of all customers to meet a defined system need. This “CAM-like” process is possible only if uniform targets are established. The CAM process allocates RA credit, the cost of that capacity, and all net energy benefits. This proposed process would allocate storage credit, the cost of that storage capacity, and the net energy benefits.<sup>17</sup> Below, SCE clarifies the following details regarding its proposal.

- All Load Serving Entities would receive the same target (*e.g.*, 2.5% of peak load). This is a critical, must-have component to this proposal. If the targets remain unequal between different classes of LSEs, this entire proposal no longer maintains indifference among customers.
- This proposal would apply to **storage procured by IOUs on behalf of all customers**. Examples of such procurement include the following:
  - Capacity procured by IOUs to meet a defined system need (*e.g.* capacity procured by SCE through the LCR RFO).
  - Storage procured by IOUs to provide a distribution reliability function

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<sup>16</sup> DACC/AReM Opening Comments at 9.

<sup>17</sup> SCE and DACC/AReM have already agreed to a method for applying the CAM to energy storage resources in the context of the 2013 Local Capacity Requirements Request for Offers. *See* A.14-11-012, Joint Motion of Southern California Edison Company and Alliance for Retail Energy Markets and Direct Access Customer Coalition to Enter A Document Into the Record (March 27, 2015) (seeking to admit into the record the Memo of Understanding between SCE and DACC/AReM with respect to cost allocation mechanism issues in the LCR RFO proceedings, including application of the CAM to energy storage resources).

- Storage funded through a program funded by all customers (*e.g.*, SGIP).
  - Any other situation in which the IOU is acting as a procurement agent on behalf of all customers.
- For storage procured through one of the above mechanisms, storage credit, storage costs and any net energy benefits from the storage would be allocated according to load share by service territory, much the way RA credit and capacity costs are allocated in the CAM process today.
- For allocation of credit: ESPs/CCAs would receive a percentage of the total storage credit equal to their percentage of load. (The specific percentages used for the CAM process would be used here as well.)
  - For allocation of cost: cost allocation for these procurement activities already occurs today, and would continue to follow the appropriate Commission-approved process, either allocation via CAM or allocation via distribution rates.
- This allocation process should occur at the beginning of each biennial cycle, to inform the IOUs' Storage Procurement Plan Applications. Because storage procurement and target compliance is organized around biennial cycles, there is no need to update the allocations more frequently. One goal of this proposal is to minimize additional administrative workload.

SCE provides a numerical example below, based on values provided by DACC/AReM. This example assumes a uniform target of 2.5% of peak load for all LSEs. In this example, SCE would allocate a total of 37.96 MW “credit” to the ESP customers, whose remaining obligation would be 14.54 MW.

**Table II-2**

		SCE	SCE area ESPs
1	<b>Uniform Target defined in terms of % of 2020 peak load<sup>1</sup></b>	2.5%	2.5%
2	<b>Target expressed in MW<sup>2</sup></b>	580 MW	52.5 MW
3	<b>Storage procured to date by SCE on behalf of all customers<sup>3</sup></b>	294.23 MW	
4	<b>Percentage for purpose of credit and cost allocation<sup>4</sup></b>	87.1%	12.9%
5	<b>Allocated share of storage credit<sup>5</sup></b>	256.27 MW	37.96 MW
6	<b>Remaining 2020 procurement obligation<sup>6</sup></b>	323.732 MW	14.54 MW
<sup>1</sup> Approximately equivalent to SCE’s current 2020 target of 580 MW. <sup>2</sup> ESP target calculated based on figures provided in DACC/AReM’s comments: DACC/AReM indicated 21 MW as equivalent to 1% of Peak load. $21 * 2.5 = 52.5$ . (See DACC/AReM Comments at 6, Table 3, line 4.) <sup>3</sup> For consistency, this is also the number used in DACC/AREMs comments. (See DACC/AReM Comments at 4, Table 1.) SCE is using this number for illustrative purposes; it does not necessarily reflect current updates to SCE’s procurement activities. <sup>4</sup> Based on 12.9% DA load share, per DACC/AReM’s comments (See DACC/AReM Comments at 5, Table 3, footnote 5.) <sup>5</sup> Share in Line 4 multiplied by procurement in Line 3 <sup>6</sup> Line 5 – Line 2			

Note that this process only applies to storage procured on behalf of all customers. Storage procured for bundled customers (e.g., SCE’s contracts from the 2014 Energy Storage Request for Offers) would not have either credit or cost allocated to ESPs/CCAs. Conversely, programs funded by all customers such as the SGIP would go through this process. Thus, all SGIP projects, whether the host customer is an IOU customer or an ESP/CCA customer, would have the credit for that project allocated as described above, much as the cost of SGIP is allocated to all customers.

**3. Stranded Cost Recovery and PCIA is More Complex and Would Benefit from a Workshop**

Numerous parties have advanced arguments related to PCIA implementation. Specific details of PCIA implementation are complex, and PCIA has remained a contentious issue for

energy storage. SCE therefore recommends the Commission host a workshop specifically to address PCIA issues and ensure that the principle of customer indifference remains upheld.

**D. SCE Continues to Support a Broad Definition of Eligible Energy Storage Technologies**

As a general policy, SCE is supportive of a technology-neutral, inclusive definition of energy storage. When determining whether to make new technologies or applications eligible within the Storage Procurement Framework, SCE recommends the Commission consider whether there is any reason (based on the Commission's goal of market transformation) to *exclude* a particular storage technology. SCE agrees with the many parties who supported including V1G or managed charging as eligible storage technology, and maintains that broadening the eligibility rules to include V1G would further the Commission's market transformation goals.<sup>18</sup>

**E. There Is Wide Agreement That Multi-Use and Community Storage Applications Raise Complex Issues Which Would Benefit From Workshops**

The responses to the questions contained in the Scoping Ruling illustrate the complexity of multiple-use applications. SCE agrees with numerous parties that one (or more likely, multiple) workshops will be necessary to resolve these issues.

**F. The Commission Should Reject an Overly Broad Definition of "Station Load"**

SCE and SDG&E's proposals for energy storage station power guidelines and rate implications are based on the principle that equitable rate treatment should apply for all generation resources regardless of technology such as wind, solar, energy storage, and other conventional generators. As stated in SCE's Opening Comments, all generation customers who

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<sup>18</sup> See NRDC Opening Comments at 4; EDF Opening Comments at 4-6; Alliance Opening Comments at 3-4.

currently receive retail service are charged at retail rate levels for delivered end use load, including power required to start and cool inlet air for a combustion generator. Similarly, both SCE and SDG&E propose that any end-use loads delivered to the storage unit when it is neither charging nor discharging should also be treated as end-use load and billed at retail rates. This treatment for end-use load is consistent with the California Independent System Operator's ("CAISO's") current tariff definition for station power:

Energy for operating electric equipment, or portions thereof, located on the Generating Unit site owned by the same entity that owns the Generating Unit, which electrical equipment is used exclusively for the production of Energy and any useful thermal energy associated with the production of Energy by the Generation Unit....<sup>19</sup>

Furthermore, the Federal Power Act<sup>20</sup> prohibits utilities from providing an unreasonable difference in rates for a similar class of service. Therefore, any loads required for the production of energy by energy storage should also be considered as retail charging. In order to ensure energy storage customers will be paying their fair share of cost, a separate retail meter should be required to distinguish this type of retail load.

Several parties opposed SCE's proposed approach, stating that any power required to operate the energy storage device should be considered as wholesale charging.<sup>21</sup> Specifically, parties point out that thermal management system load, such as Heating, Ventilation, and Air Conditioning ("HVAC") load, can be critical to maintain the optimal temperature of batteries and is essential to the operation of the system. However, treating HVAC load as wholesale charging is inconsistent with CAISO's station power definition. While CAISO points out the need to further evaluate methods to distinguish between wholesale and retail charging in its Opening Comments, it also emphasizes how any revision to the existing tariff definition will require

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<sup>19</sup> See CAISO Tariff, Appendix A.

<sup>20</sup> See 16 USC § 824d.

<sup>21</sup> See, e.g., Calpine Opening Comments at 6; CESA Opening Comments at 21; Western Power Trading Forum Opening Comments at 11.

FERC approval. Furthermore, justification would be needed to differentiate between energy storage and traditional generators' auxiliary load if different rate treatments are to be applied in order to avoid violation of the Federal Power Act.

### III.

#### **CONCLUSION**

SCE appreciates the opportunity to provide these comments on the Scoping Memo. SCE looks forward to working with the Commission and other stakeholders to resolve these storage policy issues.

Respectfully submitted,

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