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**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

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| Application of San Diego Gas & Electric Company (U902E) for Approval of Energy Storage and Energy Efficiency Contracts Arising from the Track IV Local Capacity Requirement All Source Requests for Offers | A.16-03-014<br>(Filed March 30, 2016) |

**RESPONSE OF THE ALLIANCE FOR RETAIL ENERGY MARKETS AND DIRECT ACCESS CUSTOMER COALITION TO APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY FOR APPROVAL OF ENERGY STORAGE AND ENERGY EFFICIENCY CONTRACTS**

Sue Mara
RTOADVISORS, L.L.C.
164 Springdale Way
Redwood City, CA 94062
Telephone: (415) 902-4108
E-mail: sue.mara@rtoadvisors.com

CONSULTANT TO
**ALLIANCE FOR RETAIL ENERGY MARKETS**
**DIRECT ACCESS CUSTOMER COALITION**

May 6, 2016

**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

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Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Alliance for Retail Energy Markets[1] ("AReM") and the Direct Access Customer Coalition[2] ("DACC") submit this joint response to the application of San Diego Gas & Electric Company ("SDG&E") for approval of contracts resulting from its Track IV Local Capacity Requirement All Source Request for Offers ("Application"). In this response, AReM and DACC respectfully request that the Commission require SDG&E to clarify the calculation of the net capacity cost for the Local Generation Charge ("LGC") that it proposes to apply to its energy storage contract with Hecate Energy Bancroft LLC.[3]

The filing of this response is without prejudice to AReM and DACC adopting and advocating a position or positions with respect to any issue that has been, or may be, raised by

[1] AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members respect to the issues addressed herein.

[2] DACC is a regulatory alliance of educational, commercial, industrial and governmental customers who have opted for direct access to meet some or all of their electricity needs. In the aggregate, DACC member companies represent over 1,900 MW of demand that is met by both direct access and bundled utility service and about 11,500 GWH of statewide annual usage.

[3] Application, pp. 8-9.

other parties in this matter, as well as such other issues that become known to AReM and DACC upon their further review of the SCE Application. AReM and DACC anticipate that they will be active participants in this proceeding.

## I. RESPONSE TO APPLICATION

SDG&E submits two contracts for approval in its Application: (1) 18.5-MW Energy Efficiency contract with Willdan Energy Solutions; and (2) 20-MW energy storage contract with Hecate Energy Bancroft LLC.[4] AReM and DACC focus this response on the proposed energy storage contract.

SDG&E states that Decision ("D.") 14-03-004 authorized recovery of the costs of the energy storage contract through the LGC, which it explains is "consistent" with the Cost Allocation Mechanism ("CAM").[5] The LGC recovers the net capacity cost of the contract from all customers, including direct access customers, as a non-bypassable charge. AReM and DACC do not dispute these facts. However, SDG&E has no previous experience with calculating net capacity cost for energy storage projects and the Application and associated testimony provides only rudimentary information on how it will go about making this calculation.[6] Further, SDG&E fails to acknowledge that direct access customers are entitled to receive a Resource Adequacy ("RA") credit for their LGC payments.

As background, D.14-03-004 addressed the reliability issues associated with the closure of the San Onofre Nuclear Generating Stations ("SONGS") in Track 4 of the Long-Term Procurement Plans ("LTPP") proceeding, Rulemaking ("R.") 12-03-014. That Decision authorized procurement by Southern California Edison ("SCE") and SDG&E to address the

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[4] Application, p. 5.

[5] Application, Testimony of Jeffrey Shaughnessy, pp. JS-2 to JS-3.

[6] Application, Testimony of Jeffrey Shaughnessy, p. JS-3.

identified reliability needs and approved cost recovery from all customers "either consistent with the [CAM] … or through another Commission-authorized method.[7]

In fact, SCE has already filed for approval of contracts authorized in D.14-03-004 -- A.14-11-012 for the Western Los Angeles Basin and A.14-11-016 for the Moorpark Sub-Area. SCE requested CAM treatment for energy storage contracts in both Applications, but did not provide adequate information on how the net capacity cost for the CAM would be calculated and applied for the energy storage contracts. AReM and DACC raised concerns in both proceedings about this lack of clarity. Subsequently, AReM and DACC entered into a "Joint Memo of Understanding" with SCE regarding CAM treatment of energy storage contracts and filed a Joint Motion in each proceeding to enter the Joint Memo of Understanding into the record of those proceedings.[8] The Joint Memo of Understanding clarified CAM treatment for energy storage contracts as follows:[9]

- CAM payments entitle the direct access customers to the associated RA credits, which will be allocated by Energy Division to the load-serving entities ("LSEs") serving the direct access customers. The contract capacity is used as the basis of the RA credit allocated.
- The net capacity cost will be calculated by deducting the net revenue derived from the project from the contract cost. The net revenue is the difference between the costs incurred to charge the battery during the cheapest hours of a 24-hour

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[7] D.14-03-004, Ordering Paragraph 13, p. 147.

[8] *Joint Motion of Southern California Edison Company, Alliance for Retail Energy Markets, and Direct Access Customer Coalition To Enter A Document Into the Record,* A.14-11-012, March 27, 2015 ("Western LA Basin Motion"); *Joint Motion of Southern California Edison Company, Alliance for Retail Energy Markets, and Direct Access Customer Coalition To Enter A Document Into the Record,* A.14-11-016, April 17, 2015.

[9] Western LA Basin Motion, p. A-2.

period and the revenues resulting from discharging the battery during the most expensive hours in the same 24-hour period.

The Commission approved the Joint Motion in the Western LA Basin proceeding in D.15-11-041, including the following discussion on cost allocation:

> As D.14-11-027 explained, however, D.14-03-004 recognized that the CAM was developed for generation resources and might not be an appropriate cost allocator for some preferred resources. While the cost of such resources must nevertheless be allocated to all customers, D.14-11-027 clarified that "the actual mechanism utilized to accomplish this could be CAM or another mechanism. The question of appropriate mechanism remains to be determined in applications pursuant to D.14-03-004."
>
> SCE proposes CAM as the mechanism for allocating the net capacity costs associated with the approved contracts to all consumers. SCE also recommends other methods. No party recommends other mechanism, and we find no reason to adopt a different mechanism.
>
> In addition, on March 27, 2015, a joint motion was filed seeking to enter into the record a Joint Memorandum of Understanding with respect to cost allocation issues in this proceeding. This motion is granted and informs implementation of cost allocation.
>
> Therefore, we adopt SCE's recommendations and the Joint Memorandum as the mechanism for allocating the net capacity costs associated with the approved contracts to ratepayers.[10]

The proposed decision and two alternate proposed decisions pending in the Moorpark proceeding also approve the Joint Memo on cost allocation.

Accordingly, AReM and DACC seek the same outcome in this proceeding. SDG&E has not previously applied the LGC to energy storage and its testimony did not provide adequate information how it planned to calculate the net capacity cost, which is the basis of the LGC payment by direct access customers. Further, SDG&E did not address the associated RA credit, which must be allocated to all customers making the LGC payment. AReM and DACC

[10] D.15-11-041, pp. 31-32. Citation omitted.

respectfully request that the Commission direct SDG&E to make the clarifications specified above to ensure that the LGC is calculated and applied in a fair and non-discriminatory manner,

## II. CATEGORIZATION, HEARINGS, SCHEDULE AND ISSUES TO BE CONSIDERED

AReM and DACC agree with SDG&E's proposed categorization of the proceeding as ratesetting and the proposed schedule. If the Commission adopts the recommendations of AReM and DACC clarifying the LGC treatment for energy storage contracts, hearings will not be needed on the issue of cost allocation. However, if it becomes apparent that hearings are necessary on specific issues, particularly on the cost allocation issues raised herein, the schedule can and should be adjusted accordingly. AReM and DACC do not object to the issues identified by SDG&E to be considered in this proceeding, but request the following issue be added to the scope of this proceeding:

- Calculation of the net capacity cost of the LGC and allocation of associated RA credits.

## III. CONCLUSION

AReM and DACC look forward to working with SDG&E, other parties, and the Commission staff to address appropriate LGC treatment for the Hecate energy storage contract and appreciates the Commission's attention to it comments.

Respectfully submitted,

Sue Mara

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RTOADVISORS, L.L.C.
Consultant to
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May 6, 2016