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

Application of Southern California Edison
Company (U338E) for Approval of Contracts
Resulting From Its 2014 Energy Storage Request
for Offers (ES RFO).

And Related Matter.

Application 15-12-003
(Filed December 1, 2015)

Application 15-12-004

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON
PROPOSED DECISION APPROVING ENERGY STORAGE AGREEMENTS AND
PROVIDING GUIDANCE ON CALCULATING ABOVE-MARKET STORAGE COSTS**

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**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON
PROPOSED DECISION APPROVING ENERGY STORAGE AGREEMENTS AND
PROVIDING GUIDANCE ON CALCULATING ABOVE-MARKET STORAGE COSTS**

Pursuant to Rule 14.3 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Southern California Edison Company (SCE) hereby submits its reply comments on the Proposed Decision of Assigned Administrative Law Judge Cooke ("PD"), dated July 20, 2016.¹

A. The PD Correctly Determined That A Storage Adder Is Inappropriate

In their Opening Comments, the CCA Parties and Shell Energy continue to advocate for an "energy storage adder" market benchmark that is based on the cost of newly delivering storage contracts, yet offer no substantive explanations, beyond those explicitly acknowledged and rejected by the PD, for why their proposal is appropriate. In its discussion on why the energy storage (ES) adder is inappropriate, the PD acknowledges and agrees with TURN's concern that the storage adder proposed by the CCA Parties would violate customer indifference.² The CCA Parties claim that TURN has "not provided any evidence" concerning its assertions.³ SCE disagrees. SCE provided a clear example in its reply brief showing how negative cash flows could occur under the CCA proposal.⁴ As such, the CCA Parties' dismissal of TURN's, and ultimately the PD's, reasoning as "speculative and unsupported"⁵ by the record is unfounded.

B. The Joint IOU Protocol Does Not Double Count Charging Costs

The PD finds that the Joint IOU Protocol should remove the costs associated with charging the ES resource from the PCIA *unless the charging power costs have not already been*

¹ Opening Comments were filed by the Joint CCA Parties, CESA, Shell Energy North America, ORA, SDG&E, and PG&E.

² PD at 22.

³ CCA Parties Comments at 4.

⁴ SCE Reply Brief at 13-14.

⁵ PD at 4.

reflected in utility generation costs.⁶ As discussed below and in Opening Comments, this is a valuable clarification, but not a material modification, to the Joint IOU Protocol. The CCA Parties, on the other hand, use it as an opportunity to argue that all charging costs be unilaterally excluded from the Indifference Amount (IA) calculation, ignoring the PD’s finding that charging costs rightfully belong in the PCIA calculation. The CCA Parties’ argument is without merit and should be rejected.

While ORA shares the PD’s concern that the Joint IOU Protocol could inadvertently enable a double counting of ES fuel costs, it correctly observes that “excluding fuel costs to charge a resource from the PCIA calculation may violate the Commission’s indifference principle.”⁷ SCE agrees that additional clarification in the PD on this double-counting issue would be helpful,⁸ but does not believe that an additional workshop is necessary because the following various energy storage “fuel” source scenarios detailed below were either described directly in the Joint IOU Protocol or in SCE’s and PG&E’s Opening Comments, reviewed at the May 9 PCIA Workshop, or explicitly addressed in the PD:

- **Scenario 1: IOU holds tolling rights to the ES resource and it is charged using energy purchased in the CAISO Market.**⁹ ES resources can be charged using electricity purchased directly from the CAISO market. In this scenario, the charging costs would *not* have otherwise been reflected in the total portfolio costs because the energy is purchased solely for the purposes of charging of the ES resource.¹⁰ Furthermore, the market purchases are not “generation contract[s] whose costs are

⁶ PD at 30, Ordering Paragraph 5.

⁷ ORA Comments at 5.

⁸ Specifically, SCE believes that the following sentence on page 23 may lead to confusion: “This double counting of costs could occur when the utility is responsible for delivering all of the charging energy to the storage resource.” Instead, SCE believes that this statement should be clarified to state that “[t]his double counting of costs could occur when the utility uses another one of its contracted or utility owned generation resources to deliver all of the charging energy to the storage resource.”

⁹ A.15-12-003, SCE-01 at Appendix D-8-D-9; *see also* Joint IOU presentation at the May 9 PCIA Workshop at 13-17. SCE notes that this is the scenario that would apply when an energy storage resource is physically independent of any resource in the IOU’s portfolio.

¹⁰ This scenario is not the “double-counting” scenario contemplated in the PD, as the charging costs do not “[increase] the Indifference Amount beyond the actual costs incurred.”

reflected in the IA calculation,”¹¹ as they are incremental spot market purchases and not a contract, and thus not already included in the IA calculation.¹²

- **Scenario 2: The ES Resource is a capacity-only contract.**¹³ In this scenario, the IOU does not hold the tolling rights to the ES resource. The counterparty is responsible for all charging costs and receives all CAISO revenues when the resource’s discharged energy is dispatched into the market. Under the Joint IOU Protocol, neither the charging costs nor the discharged energy are included in the IA calculation.
- **Scenario 3: Charging costs are embedded into the cost of the ES contracts.**¹⁴ In this scenario, the charging costs are not an incremental cost incurred by the IOU, but are, instead, embedded directly into the contract terms of the resource. Under the Joint IOU Protocol, the fixed and variable O&M are included in the IA calculation.
- **Scenario 4: ES resource is integrated with another generation resource and the IOU owns tolling rights for both resources.** As SCE described in its Opening Comments, to account for this scenario in the IA calculation (as well as in the ERRRA forecast of generation revenue requirement for bundled service customers), the IOU would model the combined generation and ES facility as a single resource reflecting the storage device’s charging and discharging operations as reductions and additions, respectively, to the stand-alone facility’s generation profile. This would result in a combined hybrid generation profile that accounts for charging costs as a reduction in the stand-alone facility’s generation output to the electric grid, but not as a specific line item.

C. The PD Correctly Determined that the Joint IOU Protocol Should Not Credit AS Revenues At This Time

The PD acknowledges the CCA parties’ observation that ES contracts will provide ancillary services (AS), a benefit that is not currently reflected for any resources in the PCIA

¹¹ PD at 23.

¹² Spot market purchases and contracts less than 1 year in length are not included in the IA calculation.

¹³ Joint IOU presentation at 14-17.

¹⁴ This scenario is described in the PD on page 23.

methodology,¹⁵ yet declined to modify the Joint IOU Protocol to account for it. In their Opening Comments, the CCA Parties request that the IA calculation be modified to provide a credit or offset for any AS revenue that is obtained for ES resources.¹⁶ As noted in the Joint IOU Response provided to parties on August 18, 2015, AS revenues received by other types of generation resources are not currently included in the PCIA calculation, and are *de minimis* relative to the overall above or below-market costs of the resources.¹⁷ Furthermore, and more importantly, resources cannot simultaneously provide both energy and AS in the CAISO market.¹⁸ Simply applying recorded AS revenue to the IA calculation, as the CCA parties recommend, will result in “double counting.”¹⁹ SCE agrees with the PD’s provision that the IA calculation for ES resources may be revisited after 2020 to consider additional revenue streams as greater clarity on market rules are developed,²⁰ and recommends that the CCA’s AS proposal, which is unsupported by evidence, be rejected.

D. There is No Prohibition on PCIA Treatment Until 2017

The CCA Parties claim that Decision 14-10-045 “delayed cost recovery under the PCIA for energy storage resources until 2017 at the soonest.”²¹ This is a gross mischaracterization of D.14-10-045, and no such “prohibition on PCIA treatment” exists. Rather, the portion of the decision cited by the CCA Parties was simply stating that the Commission would not approve actual stranded cost recovery of ES procurement prior to there being an approved PCIA

¹⁵ PD at 27, Finding of Fact 8.

¹⁶ CCA Comments at 6.

¹⁷ A.15-12-003, SCE-01 at Appendix D-18.

¹⁸ See SCE Reply Brief at 8.

¹⁹ See SCE’s Reply Brief at 7-8 explaining that the utilities model all resources that are capable of providing AS under the assumption that they will only offer energy dispatch, thereby ensuring that no output is “held back” for AS awards. A resource cannot simultaneously provide both energy and AS. Because the model assumes that resources are getting full value for providing energy, adding actual AS revenues on top of the assumed energy dispatch will result in the value of the energy resource being double counted. This potential for double counting is one of the reasons why ancillary services is not currently accounted for in the IA calculation. Its incorporation into the IA calculation would require thorough discussion and, potentially, changes to the forecast methodology as well as modifications to energy-related pieces of the IA calculation to ensure that there is no double counting.

²⁰ PD at 28, Conclusion of Law at 9.

²¹ CCA Comments at 8-9.

methodology – the subject of this PD. PCIA treatment is already approved for both the 2014 and 2016 ES Solicitations.²²

E. “Final CPUC Approval” Provisions that Incorporate Cost Recovery and Cost Allocation Approval Are Appropriate

Contractual provisions granting the IOU the right to terminate the contract if it does not receive cost recovery or appropriate cost allocation are necessary and appropriate. SCE agrees with SDG&E that such provisions do not “limit the Commission’s exercise of its regulatory authority.” An OII is unnecessary to address contractual revisions in a broader context; rather, the Commission should simply clarify that its order does not intend to alter the established practice of allowing buyers and sellers to negotiate contractual provisions that each believes balance the risks and rewards of the contract.

Respectfully submitted,

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²² See D.14-10-045 at 46 (“[F]or the purpose of the first solicitation, we authorize the use of the PCIA mechanism to recover above-market costs associated with DA and other departing load for [ES] projects procured for bundled service, subject to Commission approval.”); see also D.16-01-032 at 3 (approving PCIA treatment for ES contracts procured through the 2016 ES solicitations).