

Client Alert

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California Public Utilities Commission Continues Momentum for Energy Storage by Adopting a 1,325 MW Energy Storage Procurement Target by 2020

By Theresa Cho

On October 17, 2013, the California Public Utilities Commission (CPUC) approved a decision adopting energy storage resource procurement targets for California's three largest investor owned utilities – Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas & Electric Company (collectively, IOUs) – as well as the state's retail electric service providers and community choice aggregators. To read the full decision, please click [here](#).

The Decision continues a number of legal, regulatory and policy efforts in California to encourage the development and growth of energy storage technologies and markets. In 2009, the CPUC added advanced energy storage projects to the technologies eligible for Self-Generation Incentive Program payments. The Decision implements a 2010 state law known as Assembly Bill 2514 (AB 2514) that required the CPUC to consider whether to adopt targets for the procurement of "viable and cost-effective energy storage systems," defined as "commercially available technology that is capable of absorbing energy, storing it for a period of time, and thereafter dispatching the energy." (Cal. Pub. Util. Code §§ 2835, 2836). AB 2514, which was sponsored by Gov. Jerry Brown when he was the attorney general for the state of California, also requires the state's publicly owned utilities to consider adoption of energy storage procurement targets. Gov. Brown's June 2010 Clean Energy Jobs Plan called for adding approximately 3,000 MW of energy storage to the grid to meet peak demand and support renewable energy generation. In addition, in March 2013, the CPUC required Southern California Edison Company to procure a minimum of 50 MW of energy storage to meet local reliability needs created by the shutdown of the San Onofre power plant.

The Decision adopts a combined 1,325 MW – which is approximately 2 percent of statewide peak demand – procurement requirement by 2020 for the IOUs. The CPUC divides the 1,325 MW along several vectors in order to create opportunities for a range of technologies, functionalities and ownership models. For example:

- The 2020 target is allocated among three "grid domains": approximately 53 percent for transmission level projects, 33 percent for distribution level projects and 15 percent for customer-side projects. The "grid domain" refers to the point of interconnection on the grid and not to the potential functions or uses of the storage facilities.
- Procurement is spread over six years to afford new technologies time to mature and enter the market in subsequent years. Each utility is required to issue solicitations every two years for a designated amount of energy storage projects beginning in December 2014, and the IOUs are allowed to carry forward excess procurement from prior solicitations and must make up for prior shortfalls due to contract cancellations or

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changes. The full 1,325 MW must be pending contract, under contract or installed by 2020 with the full amount installed (as opposed to under contract or in development) by the end of 2024.

- Projects must meet one or more of the following purposes: grid optimization, integration of renewable energy or reduction of greenhouse gas emissions.
- The IOUs may meet up to 50 percent of the target with IOU-owned projects.

In addition, the target is limited to new energy storage projects, defined as projects that were under contract or in development on or after January 1, 2010. The decision also excludes pumped hydro resources larger than 50 MW in order to prevent a single project from fulfilling the entire procurement requirement for an IOU and crowding out new technologies.

The CPUC will allow the IOUs considerable flexibility in the procurement requirements. First, the IOUs are permitted to defer up to 80 percent of the biennial solicitation requirements to future years if the solicitation does not result in a sufficient number of operationally or economically viable projects. The IOUs are also authorized to shift up to 80 percent of the procurement requirements between the transmission and distribution grid domains.

The Decision is the starting point for the implementation of the energy storage procurement target. The Decision directs the IOUs to file an application on or before March 1, 2014, with the CPUC for approval of that IOU's energy storage solicitation proposal. The proposals will include operational requirements to be imposed on projects; a description of the type of resources the IOU intends to procure; a proposed methodology for a "least-cost, best-fit" analysis of the bids; draft agreements; and a schedule for the solicitation. Critically, the cost-effectiveness determination that could determine the future of energy storage in California will be imbedded in the "least-cost, best-fit" methodology proposed by each IOU.

Finally, other ongoing regulatory actions could significantly alter the value of energy storage resources. The CPUC is currently considering adoption of qualifying capacity values for energy storage in its resource adequacy rulemaking with a target date of June 2014. The capacity values establish how much compensation energy storage resources may receive for providing resource adequacy capacity. The California Independent System Operator is currently considering changes to its tariff to create a market for ramping resources, including energy storage facilities, and will be required to implement the Federal Energy Regulatory Commission's Order 784, which reforms ancillary services markets across the country to promote technologies such as energy storage.

The CPUC Decision adopting an energy storage procurement target is a significant milestone for energy storage companies across the country. However, critically important elements of the program must be developed to create a viable procurement framework that will foster a robust and functional energy storage market in California.

To see our previous client alert on "Key Energy Regulators Speak – Energy Storage is Happening," click [here](#).

Contact:

Theresa Cho
(415) 268-6982
tcho@mofocom

Zori Ferkin
(202) 887-1532
zferkin@mofocom

Robert Fleishman
(202) 887-8768
rfleishman@mofocom

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