



July 19, 2018

CPUC Energy Division  
Attention: Tariff Unit, 4th Floor  
505 Van Ness Avenue  
San Francisco, CA, 94102

**RE: Protest of the Direct Access Customer Coalition to Pacific Gas and Electric Company's Advice Letter 5322-E Requesting Approval of Energy Storage Contracts**

On June 29, 2018, Pacific Gas and Electric Company ("PG&E") submitted Advice Letter ("AL") 5322-E seeking approval of four energy storage contracts resulting from a solicitation it conducted in response to Resolution E-4909 to address capacity deficiencies in the Pease and South Bay/Moss Landing sub-areas and to manage high voltage in the Bogue sub-area.

The Direct Access Customer Coalition<sup>1</sup> ("DACC") has reviewed the advice letter and determined that PG&E has not fully complied with the requirements of Resolution E-4909 because it (1) already has transmission upgrades underway that will be in place by February 2019 and fully address the deficiencies that gave rise to the RMR contract; (2) submitted contracts for approval with on-line dates too late to avoid RMR contracts in 2019 or 2020, as required by the Resolution; (3) failed to provide any analysis of the costs and terms of the four storage contracts compared to the RMR contract for Metcalf Energy Center, especially given the time differential between a short-term 1-3 year RMR contract and energy storage contracts that range from 10 to 20 years in length; and (4) failed to coordinate with the CAISO as required by the Resolution. Accordingly, DACC protests this advice letter, as set forth below.

**I. BACKGROUND AND OVERVIEW**

In November 2017, the California Independent System Operator ("CAISO") designated Metcalf Energy Center for a Reliability Must Run ("RMR") contract to remedy expected capacity deficiencies in the South Bay/Moss Landing sub-area in 2018. The Federal Energy

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<sup>1</sup> 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.

Regulatory Agency (“FERC”) approved a joint settlement of the RMR contract in ER18-240-000 effective January 1, 2018. The RMR contract has a one-year term that can be extended by the CAISO for up to two years with notice given by October 1 of the previous year. Thus, the CAISO would be required to provide notice by October 1, 2018, if it intends to extend the RMR contract for 2019. The contract further provides that the extension could be for one or more units and for less than a full calendar year.<sup>2</sup>

Resolution E-4909 was a response to this decision by the CAISO to designate RMR contracts for 2018 for Metcalf Energy Center in the Greater Bay Area Local Capacity Area (“LCA”) (South Bay/Moss Landing sub-area) and two generation resources in the Sierra LCA (Pease and Bogue sub-areas). The resolution required PG&E to issue one or more competitive solicitations to procure energy storage or preferred resources to address local reliability issues in the Pease, Bogue and South Bay/Moss Landing sub-areas. In AL 5322-E, PG&E seeks approval for four contracts totaling 567.5 MW of energy storage facilities located in the South Bay/Moss Landing sub-area with project sizes ranging from 10 MW to 300 MW and contract terms from 10 to 20 years. One project, sponsored by Tesla, Inc, would be owned by PG&E. Costs are to be recovered through the cost allocation mechanism (“CAM”). This protest focuses on PG&E’s compliance with the applicable requirements for the South Bay/Moss Landing procurement.

Resolution E-4909 included significant directives for PG&E.<sup>3</sup> The directives of greatest relevance to this protest are discussed below.

Ordering Paragraph 4 required PG&E to “take into account the known costs and on-line dates” of “transmission solutions” that reduce or eliminate the need for RMR contracts. As PG&E admits, it has four transmission projects underway that will be operational by February 2019, which reduce the Local Capacity Requirements (“LCRs”) by 568 MW in the South Bay/Moss Landing sub-area and fully “address the LCR needs and issues identified by the Resolution and the CAISO that resulted in backstop procurement by the CAISO.”<sup>4</sup> Further, the CAISO verified this assessment in its letter to PG&E attached as Appendix J to the advice letter when it said, “Since the CPUC issued the Resolution, the ISO finished its 2017-2018 Transmission Plan, which identified mitigations either already underway or approved in the plan to address the specific needs that led to the reliability must-run designations.”<sup>5</sup> “Taking into account” these transmission upgrades, as required by Ordering Paragraph 4, should have led PG&E to terminate its efforts to procure resources to address the South Bay/Moss Landing sub-area, because the resources were no longer needed. PG&E says little about its decision to

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<sup>2</sup> Metcalf RMR contract, Section 2.1(b).

<sup>3</sup> Resolution E-4909, p. 20.

<sup>4</sup> AL 5322-E, p. 11.

<sup>5</sup> Appendix J, May 21, 2018, letter from Keith Casey of CAISO to Fong Wan of PG&E, at p. 1.

continue with procurement, except to comment that this sub-area is “expected to remain constrained” in the near future “where the notice of a single generator retirement might necessitate backstop procurement.”<sup>6</sup> The possibility that these energy storage facilities *might* be needed in the future to avoid backstop procurement is a wholly inadequate basis for approval of the contracts.

Ordering Paragraph 5 required the procured resources to be “on-line and operational on or before a date sufficient to ensure” the RMR contracts “will not be renewed” for 2019 and beyond. The earliest on-line date of the four contracts – a 10 MW facility -- is October 1, 2019. The remaining three contracts have on-line dates of December 1, 2020 or later. Consequently, even if PG&E had no transmission upgrades underway to remedy the local deficiency, these on-line dates do not comply with Ordering Paragraph 5. Without the transmission upgrades, the CAISO would have to give notice to Metcalf Energy Center on October 1, 2018, for an extension to 2019 and on October 1, 2019 for an extension to 2020.

Ordering Paragraph 7 required that the resources be procured at “reasonable cost” taking into consideration, among other things, the “cost of the specific RMR contracts, with adjustments for contract terms such as contract length and expedited delivery date.” While the Commission clearly asks PG&E to evaluate the cost and terms of the procured resources compared to the RMR contracts, PG&E provides no such analysis in the public version of its advice letter. Cost data for the storage contracts is confidential and unavailable to DACC. However, PG&E does provide the forecast revenue requirement for the 182.5 MW Tesla project of \$41.2 million for 2021 and \$39.0 million for 2022.<sup>7</sup> For comparison, the annual fixed revenue requirement for the Metcalf Energy Center is \$43 million for 2018 and for each year of any extension through 2020.<sup>8</sup> So, the cost of the Tesla energy storage project -- by itself -- is comparable to the entire RMR contract. Moreover, the RMR contract ends in 2020 while the four energy storage contracts live on for 10 to 20 years. Put simply, PG&E failed to provide any justification or analysis to support approval of lengthy and costly CAM contracts to replace an at most 1- to 3-year RMR contract.

Ordering Paragraphs 9 and 10 required PG&E to “coordinate” with the CAISO “to ensure that the resources procured in this solicitation partially or wholly obviate the need for, or extension of, RMR contracts at question in this Resolution” (Ordering Paragraph 9) and to indicate in the advice letter whether the CAISO agreed that the procured resources achieved that goal (Ordering Paragraph 10). PG&E’s advice letter provides no discussion in its public version of any activities it undertook to fulfill the requirement to coordinate with the CAISO. In fact, the CAISO letter to PG&E, attached as Appendix J, seems to confirm the lack of coordination -- the

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<sup>6</sup> AL 5322-E, pp. 13-14.

<sup>7</sup> AL 5322-E, p. 21.

<sup>8</sup> *Joint Explanatory Statement*, submitted with Joint Offer of Settlement, Metcalf Energy Center, L.L.C., March 21, 2018, FERC Docket No. ER18-240-000, p. 8.

CAISO states that it “looks forward to working with PG&E in the future to validate the resources ultimately procured.”<sup>9</sup> Moreover, the CAISO letter is silent on whether the proposed energy storage projects “partially or wholly obviate the need for” RMR contracts. Instead, the CAISO agrees that PG&E’s transmission upgrades “address the specific needs that led to the reliability must-run designation” for the South Bay/Moss Landing sub-area and makes only general statements in support of energy storage as a resource.<sup>10</sup> Thus, PG&E provides no evidence that it coordinated with the CAISO or obtained the CAISO’s agreement that the procured resources would be effective in avoiding a RMR contract before submitting its advice letter.

## **II.   GROUNDS FOR PROTEST**

As fully described above, DACC protests this advice letter on the following grounds:

1. PG&E did not comply with Ordering Paragraph 4 by continuing the solicitation to procure resources that are no longer needed, despite the fact it has transmission upgrades underway that will be in place by February 2019 and fully address the deficiencies that gave rise to the RMR contract.
2. PG&E did not comply with Ordering Paragraph 5 by submitting contracts for approval with on-line dates too late to avoid RMR contracts in 2019 or 2020.
3. PG&E did not comply with Ordering Paragraph 7 by failing to provide any analysis of the costs and terms of the four storage contracts compared to the RMR contract for Metcalf Energy Center, particularly considering that (a) the yearly cost for only one of the four projects (Tesla) was comparable to one year of the RMR contract and (b) the RMR contract is short-term and the energy storage contracts range from 10 to 20 years in length.
4. PG&E did not comply with Ordering Paragraphs 9 and 10 by failing to provide evidence that it (a) coordinated with the CAISO on the results of the resource solicitation or (b) obtained the CAISO’s agreement that the procured resources (as opposed to the transmission upgrades) would “obviate the need” for an RMR contract.

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<sup>9</sup> AL 5322-E, Appendix J, CAISO Letter, p. 2.

<sup>10</sup> AL 5322-E, Appendix J, CAISO Letter, p. 2.

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**III. REQUESTED RELIEF**

PG&E has failed to comply with critical directives of the Commission in Resolution E-4909 as detailed above. Accordingly, DACC respectfully requests that the Commission reject PG&E's Advice Letter 5322-E as non-compliant with Resolution E-4909.

Respectfully submitted,



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Service Lists in R.15-03-011 and R.17-09-020