

INDEPENDENT ENERGY PRODUCERS

To: CAISO Management

From: Steven Kelly
Policy Director

Date: September 4, 2018

RE: Storage as a Transmission Asset (SATA): Revised Straw Proposal

The Independent Energy Producers Association (IEP) provides the following comments on the CAISO Revised Straw Proposal: Storage as a Transmission Asset (dated August 15, 2018). IEP represents non-utility, independent power producers (thermal, renewables) many of whom are engaged in developing storage assets to serve California.

Schedule for Considering the SATA Initiative

The Draft Final Proposal in the SATA Initiative is scheduled to be released September 24, 2018, and the CAISO Board is scheduled to consider it on November 14-15, 2018. As discussed in greater detail below, IEP has strong concerns regarding the CAISO's proposed approach to enable SATA resources to participate in CAISO markets. This policy proposal requires additional thought, review, and consideration. Accordingly, if this initiative is to proceed, IEP requests that the CAISO modify the current schedule and, at a minimum:

1. **Add time to consider a Revised Straw Proposal #2.** A Revised Straw Proposal #2 would enable the CAISO to consider and address some of the fundamental issues and concerns raised by parties at the stakeholder meeting and through comments.

2. **Postpone consideration of the Draft Final Proposal and the presentation to the ISO Board to a later date.** IEP is not aware of any compelling reason for moving this initiative to the CAISO Board as scheduled. The proposed policy would benefit from further development and discussion among stakeholders and CAISO management prior to its consideration by the CAISO Board.

We believe it critical to get this proposal “right.” As noted in our prior comments on the SATA Straw Proposal, the CAISO should endeavor to “Do No Harm” in this initiative.

Concerns related to CAISO Independence and Market Operations

IEP supports storage resources competing on a comparable, non-discriminatory basis against traditional transmission assets to meet the needs identified in the CAISO’s transmission planning process (TPP). We support storage resources competing on a comparable, non-discriminatory basis with other resources to provide energy and capacity in CAISO markets.

On the other hand, when distilled to its essence, the Revised Straw Proposal presents the following paradigm:

- The independent system operator may enter into long-term, cost-of-service contracts with storage resources to provide transmission services (i.e. SATA resources);
- The independent system operator may provide SATA resources market-sensitive data not available to other market; and,
- SATA resources, upon receipt of market sensitive information from the independent system operator, are enabled to participate in the CAISO DA and RT markets, i.e. “compete” against other market participants not privy to the market sensitive information provided the SATA resources.

What is wrong with this picture?

Certainly, the independence of the CAISO is undermined under this approach. As IEP understands the Revised Straw Proposal, after contracting with storage resources on a long-term basis to provide transmission services, the CAISO is proposing to Notice SATA resources either 2-Day Ahead or 1-Day Ahead whether they are free at their discretion to participate in the DA and/or RT energy markets. This Notice to the SATA resources will invariably convey critical market-sensitive information from which one could derive DA and RT estimates of supply/demand balances, congestion, etc. As far as IEP is aware, information such as this is not available to other market participants.

The principle of non-discriminatory, comparable treatment of resources in CAISO markets is at risk under the Revised Straw Proposal. Under the proposal, a single resource and/or a single class of resources (i.e. SATA resources) receive market sensitive information from the CAISO that is not available to other market participants. This is particularly troubling, given that SATA resource owners may have a portfolio of assets, including non-SATA resources, participating in CAISO markets that could benefit were they to receive any of the market sensitive information that is to be made available ahead of market operations to the SATA resources.

While IEP recognizes that the SATA initiative derives in whole or in part from the FERC 2017 Policy Statement, we are concerned that the Revised Straw Proposal fails to meet the other objectives articulated by FERC in its policy statement; namely, the policy should not undermine the independence of the Independent System Operator nor suppress market clearing prices inappropriately. The Revised Straw Proposal falls far short of these important goals. Accordingly, we reiterate a sentiment presented in our comment on the initial SATA Straw Proposal: “Just because you can, doesn’t mean you should.”

Issues Related to Specific Aspects of The Revised Straw Proposal

A. SATA Selection

The CAISO's Transmission Planning Process (TPP) is used to identify resources needed to ensure grid reliability, that are economic in the context of lowering the costs to consumers of delivering supply to load, and that facilitate the interconnection of resources to meet public policy objectives (e.g. the Renewable Portfolio Standard). Under the Revised Straw Proposal, the CAISO proposes to consider storage resources in the Transmission Planning Process (TPP) as a resource to meet one or more of these objectives.¹

Yet, the development and expansion of storage resources now is a goal onto itself under current state policy. IEP requests more clarity with regards to the purpose for which the CAISO would be authorized to contract with a SATA resource under its proposal:

- **Will the CAISO have unlimited discretion to contract for storage resources given various statutory (e.g. Storage Mandate) and long-term planning (e.g. IRP) policy objectives? If the CAISO's discretion in this regard is limited, what will be the limiting factors?**
- **Will the CAISO have the authority to procure storage resources paired with renewables to meet public policy mandates?**
- **Will the CAISO have the authority to select large-scale, pumped hydro (for example, a pumped-hydro resource sized 1,000 – 2,000 MWs located in California) to meet storage mandates and/or for economic purposes?**

B. Cost Recovery Options

The Revised Straw Proposal presented three options for cost-recovery of the SATA resource owner. These include the following:

¹¹ CAISO Presentation, Storage as Transmission Asset, August 21, 2018, p. 6.

1. Full cost-of-service based cost recovery with complete energy market crediting to ratepayer.
2. Partial cost-of-service based cost recovery and retain energy market revenues.
3. Full cost-of-service based cost recovery with partial market revenue sharing between owner and ratepayer.²

Regarding Option 1, this option eliminates any potential revenue “upside” while imposing additional market risk on the “downside” due to the requirement that 100% of market revenues be credited against the TRR cost-of-service revenues that would otherwise apply.

Accordingly, a resource owner is unlikely to choose Option 1.

Regarding Option 2, partial cost-of-service based cost recovery coupled with the full retention of energy market revenues shifts risk to the asset owner. In California, these risks would be substantial in today’s market, including the risk to “claw back” of revenues if market earnings were too “high.” IEP envisions that this option also would have little value to resource owners given the risk of costly litigation and revenue uncertainty.

Regarding Option 3, this option provides revenue certainty with some modest opportunity for additional, market-based revenues. Accordingly, this option is more likely to be chosen by resource owners. IEP notes, however, that the additional revenues that would accrue to the resource owner (and ratepayers) require access to markets on the terms/conditions that trigger concerns regarding CAISO independence, market sensitive data, and discriminatory treatment (as discussed above). Also, this approach requires a process to determine the appropriate “split” of market revenues that may trigger extensive litigation under the auspices of the CAISO that could mirror utility General Rate Cases (GRCs) when all is said and done.

C. SATA Notification Practices

The CAISO has proposed to ensure its independence through its Notification Practices. To achieve this independence, the CAISO proposes to develop a Transmission Revenue

² CAISO Storage as Transmission Asset: Revised Straw Proposal, August 15, 2018, p. 7

Requirement (TRR) crediting system, and then net back market revenues against the TRR revenue requirement of the SATA resource. To provide a measure of market certainty to the SATA resource as to the potential scope/scale of the TRR crediting, the CAISO proposes adopting one of two Notification procedures to determine the needs for the SATA resource(s) to be used as transmission assets (vs. a “market participant”) in the DA market:

- **Option 1: Day-Ahead Market Option.** Under this option, the CAISO will generate a bid below the transmission relaxation penalty in the DA Residual Unit Commitment (RUC) market run; and, then the CAISO will determine whether the SATA resource(s) clears the DA market. If the SATA resource is not cleared in the DA market run, then the SATA resource will be allowed to bid in the Real-Time market.³
- **Option 2: Day-2 Option.** Under this option, the CAISO will evaluate the needs for SATA resources to be used as transmission assets two days prior to the operating day. Like Option 1, the CAISO will generate a Day 2 RUC run. If the SATA resources are clear in this process, the SATA resource will be deemed as a Transmission Service Asset for the period modeled and it will not be allowed to participate in the CAISO markets. Otherwise, the SATA resources will be eligible to bid in either the CAISO DA or RT markets.⁴

IEP believes that the results of the RUC “run” (s) convey market sensitive information even if the Notification were limited to simply “Your resource is not eligible to participate in the CAISO Markets on Day ____.” Simply put: the information as to whether a SATA resource is needed (or not needed) to serve as a transmission asset in the DA and/or RT market is inherently market sensitive. To the extent that the CAISO conveys this information in advance via its Notification Practices to one market participant, it must convey this information to all market participants at the same time.

Accordingly, IEP requests clarity with regards to the following:

³ CAISO Presentation, Revised Straw Proposal, p. 37.

⁴ Ibid, p. 39

- 1. Will the Notification provided to the SATA resources (regarding eligibility to participate in DA and/or RT markets) be provided concomitantly and concurrently to all market participants?**

D. Comparable Treatment of Resources: Logical Implications

The CAISO SATA proposal is premised on the perception that storage resources can provide transmission/grid support services (e.g. voltage, thermal loading, reducing congestion management, etc.) while receiving market revenues. SATA resources will not be eligible for RA counting.

As noted in its prior comments, several alternative resources that currently engage in CAISO markets also can be positioned to provide some or all these services. Thus, IEP asks the following question:

- Will alternative resources that provide comparable benefits and are comparably situated (i.e. are not being counted for RA) eligible to compete in the TPP to obtain any one of the cost-recovery options made available through the CAISO Tariff?**

IEP appreciates the opportunity to comment on the Revised Straw Proposal. We look forward to continuing discussion about the merits of a policy to enable SATA resources to participate in CAISO markets.