Storage as a Transmission Asset

Stakeholder Comment Template

Submitted by	Company	Date Submitted
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Please use this template to provide your comments on the Storage as a Transmission Asset stakeholder working group meeting that was held on June 29, 2018.

Submit comments to InitiativeComments@CAISO.com

Comments are due July 16, 2018 by 5:00pm

The working group meeting, hosted on June 29, 2018, as well as the presentation materials discussed during the stakeholder web conference, may be found on the Storage as a Transmission Asset webpage.

Please provide your comments on the Straw Proposal topics listed below, as well as any additional comments you wish to provide using this template.

Informational discussion

Based on stakeholder comments to the straw proposal, the ISO provided additional information regarding how SATA resources will be considered in the ISO's Transmission Planning Process (TPP). The ISO's working group presentation built on the materials covered through the straw proposal and focused on:

1. Assessments of need and technical requirements
2. Economic evaluation of project alternatives
3. Transmission Asset versus Market Local Resource considerations
4. ISO Operational control of storage assets

Are there additional questions regarding the materials that the ISO provided during the working group process or questions specifically relating to how the ISO will consider SATA resources in the TPP that the ISO has not yet discussed?

Comments:

Yes. The ISO should clarify (1) that it will analyze SATAs in the same manner as any other transmission facility in the TPP, (2) how it will treat pumped storage hydroelectric projects that require a hydropower license from FERC, and (3) that cost-capped bidding—though permissible—is not mandatory in the Phase 3 project selection stage of the transmission planning process.

Please respond to each of the following points by posting responses or addressing them as specific agenda items at the next stakeholder meeting.

I. Non-Discriminatory Treatment of SATAs

The ISO must confirm that its studies of SATAs will:

a. Apply FERC's comparability and transparency requirements such that they are studied to address transmission needs in a non-discriminatory manner. The ISO must apply these principles as between SATAs and other transmission technologies, and between different SATA technologies (e.g., pumped storage hydroelectric facilities and batteries).
b. Adhere to these comparability and transparency principles by using the same analytic tools and methods to study SATAs as it applies to any other transmission solution under consideration in the TPP, which is the Transmission Economic Assessment Method ("TEAM").
c. Attribute benefits from all five TEAM categories to SATAs in the same way that the ISO attributes such benefits to other transmission technologies (*i.e.*, production benefits, capacity benefits, public policy benefits, renewable energy integration benefits, reliability benefits and avoided cost of other transmission benefits).
d. Use these analytic tools to evaluate whether SATAs meet any of the seven categories of transmission needs identified in its transmission planning tariff, and that CAISO will consider the extent to which SATAs satisfy more than one transmission need (*i.e.*, a SATA that is proposed as a public policy project to address renewable energy integration

will receive credit for reliability or congestion cost savings benefits in the CAISO's analysis).

e. Not *subtract* benefits provided by SATAs on the theory that such benefits may be compensated through other mechanisms. For example, CAISO must confirm that it will not disregard local capacity benefits or renewable integration benefits in its transmission modeling on the theory that the SATA can seek to recover the costs of such benefits elsewhere. The logic of FERC's policy statement on treating storage as transmission is that storage resources are able to provide multiple grid support services—often at the same time—which are not adequately compensated through market mechanisms. Disregarding these benefits in the project study stage would contradict the rule that CAISO is seeking to implement. Moreover, disregarding the various grid support benefits that SATAs can provide would be especially inappropriate when SATAs propose full cost of service rate recovery with revenue crediting for any incidental market revenues that they earn. In that circumstance, ignoring the benefits for modeling purposes would be twice as bad—the SATA will not get credit for all of the services it can provide even though it will not collect incremental revenues for providing them.

Permitting Requirements

The issue was raised in the morning session of the stakeholder conference concerning the interplay between permitting requirements for pumped storage hydroelectric projects and the ISO's competitive solicitation requirements in Phase 3 of the transmission planning process. The ISO deferred the issue to the afternoon session, but never returned to it.

Due to the exclusive, lengthy and costly Federal Power Act licensing requirements for pumped storage hydroelectric facilities, if the ISO selects such a facility as most suited to meet a transmission need, the ISO cannot require competitive bidding for the specific project because the license is a property right that is unique to the license applicant or license holder. Thus, the "competitive" choice is between different projects and technologies to address identified transmission needs. If the ISO determines that a pumped storage hydroelectric project is the best and most economical solution for a transmission need, and the proponent has exclusive licensing rights to the project as set forth in the Federal Power Act, the ISO must award the project to that sponsor. This is a further reason why it is critical that the ISO apply its TEAM analysis correctly and in a not unduly discriminatory manner in the project selection process because that method considers the economics of projects as part of the selection process. There is no need for a further competitive market test because, ultimately, the ratepayer protection lies in the Federal Power Act's requirements that rates must be just and reasonable, including a reasonable return on prudent investments. That has been the lawful ratemaking method since 1935.

Cost-Capping

Voluntary cost-capped project bids are lawful; involuntary ones are not. The D.C. Circuit recognized in the *Atlantic City* case (295 F.3d 1, 11 (D.C. Cir. 2002)) that Section 205 of the Federal Power Act is premised on voluntary commercial arrangements where the utility service provider has the right to propose in the first instance the rates to be charged for the use of its facilities, subject to FERC's

authority to determine whether the proposed rates are just and reasonable. The court rejected FERC's attempt to use its conditioning powers to circumvent the statute by doing indirectly what it is forbidden from doing directly: dictating the rates or rate method to be used by the utility. Thus, while the ISO's consideration of voluntary cost caps is consistent with the cost-effectiveness transmission planning principle in Order 890 (and Order 1000's permissiveness towards competitive transmission solicitations), mandatory cost caps crosses an impermissible statutory line in the sand.

Contractual Arrangement

The ISO proposes to develop a new agreement with SATA resource owners that captures elements from Participating Generator Agreement (PGA), Participating Load Agreement (PLA), Reliability-Must-Run (RMR) and Transmission Control Area (TCA) agreements, among others. At the working group meeting, the ISO provided additional details about this proposed new agreement. Please provide comments on this proposal.

Comments:

NHI has no comments on this proposal.

Cost Recovery Mechanism

The ISO has proposed two alternative cost recovery mechanisms in the straw proposal:

1. Full cost-of-service based cost recovery with energy market crediting
2. Partial cost-of-service based cost recovery with no energy market crediting

At the working group meeting, CRI and SDG&E provided additional ideas for cost recovery. Through the discussion, a third option was proposed: Full cost-of-service with partial cost recovery. This option would mitigate risks associated with option 2 and provide incentives that do not exist under option 1. Please provide comments on the proposal and/or comments provided by CRI and SDG&E along with this third option. In comments, please provide a description of how they compare and contrast to the ISO's first two options, specifically as it pertains the direction provided in the FERC policy statement.

Comments:

See NHI's comments on cost caps above. In addition, NHI offers the following observations.

SATAs, like other transmission, are entitled to full cost recovery. Option I provides for full revenue credits to the extent SATAs participate in the market, which addresses FERC's concern about double recovery. Option 2 and similar proposals must be voluntary. Full cost of service rate recovery with crediting of incidental revenues against the cost of service is the presumptively just and reasonable method followed by public utilities and approved by FERC for decades. This method resolves FERC's concern in its policy statement on the treatment of storage as a transmission asset that the proponent of a rate recovery method must demonstrate that it will not result in the double recovery of the revenue requirement. Partial cost recovery with the retention of incremental revenues is not similarly a presumptively just and reasonable method and raises cost double-recovery concerns.

NHI does not oppose alternative cost recovery ideas that SATAs may voluntarily propose for FERC acceptance. We note, however, that full cost of service rate recovery with crediting of incidental energy (and ancillary service) market revenues is not only consistent with long-standing FERC precedent, it is

administratively efficient, and avoids disputes about double recovery or over-recovery of revenues requirements that FERC's storage policy statement stated must be addressed in any storage-as-transmission plan. NHI is not confident that these alternatives, even if voluntary, will pass muster.

Other

Please provide any comments not addressed above, including any comments on process or scope of the Storage as a Transmission Asset initiative, here.

Comments:

The ISO must confirm that it will study SATAs to meet any and all transmission needs in the 2018/2019 transmission planning cycle, and will apply open, transparent and non-discriminatory study methods to all SATAs offered into the upcoming planning cycle. The ISO should confirm that the ratemaking proposals being considered through the straw proposal process will not delay its consideration of SATAs to meet identified transmission needs in the 2018/2019 planning cycle.