

Storage as a Transmission Asset
Straw Proposal and June 29th working group
Comments by Department of Market Monitoring
July 17, 2018

Overview

DMM appreciates the opportunity to comment on the ISO's *Storage as a Transmission Asset Straw Proposal* and June 29th working group.

The ISO proposes two potential cost recovery models for storage resources providing transmission services: A “full cost-of-service” option where market revenues offset the Participating Transmission Owner (PTO) Transmission Revenue Requirement (TRR), and a “partial cost-of-service” option where a portion of cost recovery is guaranteed through the TRR and the asset owner assumes risk of recovering costs and earning returns through market revenues.

DMM supports the ISO developing rules to allow resources selected as a transmission solutions through competitive solicitations to participate in the wholesale market and earn market revenues. Allowing a transmission asset to participate in the market outside of intervals that the asset is needed for ISO reliability could enhance market efficiency, benefitting ratepayers when the asset can displace more expensive generation. A competitive procurement process could also incentivize project sponsors to discount fixed cost recovery (including capital expenditures, going forward fixed costs, and rate of return) up to projected net market revenues, benefitting ratepayers by lowering overall TRR.

Whether project sponsors discount fixed cost recovery in solicitation bids, however, depends on the competitiveness of the project solicitation process. Not all transmission projects are selected under ISO-administered competitive solicitations (e.g. local projects). Additionally, even ISO-administered solicitations are not guaranteed to be competitive. Projects selected under non-competitive conditions may necessitate different rules for market participation and treatment of market revenues.

DMM supports the ISO also offering full cost-of-service options for transmission assets. DMM supports a full cost-of-service framework consistent with Western Grid's 2010 proposal – where a project is selected as the optimal transmission solution by the ISO but the project sponsor chooses to forego market participation and revenues.¹ However, a full cost-of-service option with market participation raises questions requiring further discussion.

¹ *Petition for Declaratory Order of Western Grid Development*, LLC. EL10-19, Western Grid, January 21, 2010: <https://www.ferc.gov/whats-new/comm-meet/2010/012110/E-6.pdf>

DMM provides more detail on these concepts below.

Partial cost-of-service compensation

DMM supports the ISO developing a participation model that will allow storage assets selected as transmission solutions through ISO-administered competitive solicitation processes to participate in the wholesale market and earn market revenues.

Under a competitive solicitation process, a project sponsor would be incentivized to discount fixed cost recovery (including capital expenditures, going forward fixed costs, and rate of return) up to projected net market revenues to increase its chances of being selected by the ISO. The partial cost-of-service framework could benefit ratepayers by lowering overall TRR costs. Resource owners would also be incentivized to offer competitively in the market to recover costs and maximize market revenues. Allowing transmission assets to participate in the market outside of intervals needed for reliability could enhance market efficiency and provide a benefit to ratepayers when resources are scheduled economically, displacing otherwise more expensive generation.

Whether project sponsors discount fixed cost recovery in solicitation bids, however, depends on the competitiveness of the project solicitation process. Not all transmission projects are selected under ISO-administered competitive solicitations (e.g. local projects). Additionally, even ISO-administered solicitations are not guaranteed to be competitive. Projects selected under non-competitive conditions may necessitate different rules for market participation and treatment of market revenues.

Full cost-of-service options

DMM supports the ISO also offering full cost-of-service options for transmission assets. DMM supports a full cost-of-service framework consistent with Western Grid's proposal – where an asset is selected as the optimal, least-cost solution by the ISO but the project sponsor chooses to forego market participation and market revenues. Any incidental net market revenues accrued as a result of ISO reliability dispatch would be credited back to the TRR.

However, the full cost-of-service option with market participation raises questions requiring further discussion. DMM believes that assets that would otherwise be sitting idle could provide benefits to market efficiency if made available to the market during intervals they are not needed for ISO reliability. But DMM also agrees with the ISO and other stakeholders that there would be little incentive for project sponsors to bid into the market if all market revenues must be credited back to the TRR.

DMM offers some points for further discussion:

- Transmission ratepayers under a full cost-of-service framework fully fund the transmission project, removing risk for the project developer. Absorbing this risk justifies directing benefits of the project to ratepayers.
- Awarded projects provide transmission ratepayers reliability benefits, but there are also potential market efficiency benefits when assets are available to the market and can displace more expensive resources.
- Resource owners would only be incentivized to participate in the market if the prospect of retaining net market revenues existed
- Market participation also involves additional operational costs

DMM looks forward to continuing discussions regarding the appropriate allocation of market revenues under full cost-of-service compensation with market participation. Stakeholder proposals which involve the sharing of net market revenues could be viable possibilities for balancing resource owner incentives and returns to ratepayers. However, responsibility for additional operational costs should also be considered.

Incentives to ensure transmission assets are available to provide reliability services

During the May 24th stakeholder meeting, some stakeholders suggested that transmission resources should not be subject to non-performance provisions if traditional transmission assets are not subject to those same rules. However, a transmission resource that can also participate in the market has different incentives than a transmission asset that is always available to the ISO except when on outage. We expect a transmission resource participating in the market to operate in a way that maximizes market revenues outside of intervals it is called upon for ISO reliability.

Meeting ISO reliability instructions may often be inconsistent with maximizing market revenues. To incentivize a transmission resource to meet an ISO reliability call, DMM believes a non-performance penalty structure is a necessary component of a market participation model for transmission resources. DMM notes that RMR resources are currently subject to non-performance penalties if a resource does not perform as directed by the ISO.²

² CAISO Tariff Appendix G – Pro Forma Reliability Must-Run Contract as of Apr 1, 2017, Section 8.5, p. 38.
http://www.caiso.com/Documents/AppendixG_ProFormaReliabilityMustRunContract_asof_Apr1_2017.pdf