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 second revised straw proposal that was posted on October 16, 2018.

Submit comments to InitiativeComments@CAISO.com

Comments are due November 6, 2018 by 5:00pm

The second revised straw proposal, posted on October 16, 2018, as well as the presentation discussed during the October 23, 2018 stakeholder meeting, may be found on the Storage as a Transmission Asset webpage.

Please provide your comments on the second revised straw proposal topics listed below, as well as any additional comments you wish to provide using this template.

Cost Recovery Mechanism

The ISO has proposed three 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
3. Full cost-of-service based cost recovery with partial market revenue sharing between owner and ratepayer

Additionally, the ISO envisions two potential scenarios for option 1: Direct assigned SATA projects and 2) when the project sponsor bids into TPP phase 3 competitive solicitation process, selecting this option.

The ISO has proposed the rules governing SATA bidding and cost recovery eligibility would differ slightly between these two scenarios. Please provide comments on these three options, including the two scenarios under option 1 and any other options the ISO has not identified.

Comments:

Option 1

SCE supports the element of Option 1 that provides for full cost-of-service based cost recovery, but proposes that any energy market crediting must provide incentives for the asset owner and customers to benefit. Option 1 has an inherent deficiency with its lack of incentive for market participation by the SATA resource owner[1]. The CAISO is now seeking feedback on a proposed must offer obligation (MOO) as a modification to Option 1. Unfortunately, the MOO proposal is an attempt by the CAISO to remedy a fundamental flaw of Option 1 by a means which is misaligned with the initiative's scope "to *enable* storage providing cost-based transmission services to also participate in ISO markets and receive market revenues to provide additional ratepayer benefits and provide greater flexibility to the grid.[2]" SCE opposes the proposed MOO for Option 1 because it would compel, not enable, SATA resource owners to participate in the energy market, would be inconsistent with how the CAISO has traditionally implemented a MOO, and would inappropriately deprive the SATA owner of any benefit for its forced market participation. Additionally, under the proposed MOO scenario, the CAISO is considering setting the discharge price at the energy price cap or at the 95% level at a given location. *SCE opposes the establishment of a MOO for Option 1*.

The MOO proposal under Option 1 is inconsistent with the intended purpose of a MOO and other mandatory operating instructions in other CAISO areas. Typically, the CAISO develops a MOO for an identified system reliability need such as a voltage support or thermal overload condition that must be mitigated, or in Resource Adequacy, to provide system, local or flexible capacity to maintain reliability. The resource selected by the CAISO to fulfill the reliability need under a MOO scenario is separately compensated for providing the reliability service. An example of such an occurrence would be a Reliability Must Run (RMR) generator that is obligated to generate per CAISO instructions to meet a system reliability need, which is compensated under an RMR contract. In contrast, in the case of the proposed MOO for a SATA, there is no system reliability need that needs to be met. In fact, under the current initiative, the SATA resource would be relieved from its primary responsibility to perform as a transmission asset reliability role, and instead be able to participate in the market. The MOO is simply inappropriate in the context of a resource's participation in the energy markets.

A MOO does not guarantee any ratepayer benefits and would force market participation by the SATA owner without an opportunity for a commensurate reward (profit). Rather than providing an incentive for market participation, a MOO may force behavior by the SATA resource owner that, in order to comply with the rules, results in higher costs to customers. This outcome would also place unreasonable financial and operational risks on the SATA resource owner. From a financial risk standpoint, "being ready" may require a SATA owner to increase its state of charge during periods of high energy prices in response to the CAISO's MOO market performance obligation. Further, the problem of charging at high energy prices would be exacerbated if the SATA resource, due to a change in the load forecast, is subsequently called back by the CAISO to instead perform as a transmission asset. A MOO could also create an unreasonable financial risk with the proposed arbitrary setting of the discharge price at the energy price cap or at the 95% level for a given location since there would be no

[1] Assuming Option 3 remains available, SCE does not object to also having Option 1 available.

[2] CAISO Storage as a Transmission Asset (SATA) Second Revised Straw Proposal, p. 3.

guarantee that SATA resource would be covering its full marginal costs, even at the energy price cap level. A MOO would also create operational uncertainty regarding when the SATA would be released to "must offer" into the market which could jeopardize the resource's ability to perform, especially if it does not have sufficient time to charge, and be ready, for its required market participation. The end result could be a net increase in costs that customers would be required to pay through the TAC.

Treatment of Direct Assigned Projects and Insufficient Competition

SCE disagrees with the CAISO's proposal that direct assigned projects be restricted to only Option 1 for cost recovery purposes. Limiting direct assigned projects to Option 1 could unfairly result in a SATA resource foregoing market revenues which would otherwise be shared with ratepayers under an Option 3 scenario. The concern of market power potentially being exercised by the owner of a direct assigned project motivated to keep as close to 100% of the market revenues as possible could be remedied by including a ratepayer/owner profit sharing split that is not abusive and provides additional opportunities for customer to benefit in the contractual agreement under an Option 3 scenario. Thus, rather than limiting direct assigned projects to option 1, the CAISO should develop a "safe harbor" profit sharing spilt and allow direct assigned projects to elect option 3 under the terms of the "safe harbor" sharing. This would ensure customers are protected from being "over charged" while providing incentives for the asset owner to pursue market opportunities that would benefit both customers and the asset owner.

Moreover, even in instances where there is insufficient competition (e.g. less than three bidder in an Order 1000 process) the CAISO should allow bidders to select Option 3 but restrict profit sharing to the "safe harbor" (or less owner profit retention). The objective is to provide incentives to the asset owner that will benefit customer through reduced rates. There is no reason to abandon these objectives simply due to the lack of competition. A "safe harbor" split protects customers from abuses and provides them the potential for reduced rates.

SCE agrees with eliminating Option 2 as an option for direct assigned projects.

Option 2

SCE reiterates its opposition to Option 2, which entails partial cost-of-service based cost recovery with no energy market crediting. SCE disagrees with the CAISO's assertion in its Second Revised Straw Proposal that, beyond the project financing risks raised by several stakeholders, parties "did not demonstrate any potential harm from maintaining this option[3]". In comments submitted on the Straw Proposal and Revised Straw Proposal, SCE raised the issue of this option being materially outside of the current transmission rate paradigm because only a portion, not the entire, costs of transmission would be recovered through the TAC. It would be inappropriate to make such a transformative change to the existing transmission cost recovery mechanism simply to accommodate the *potential* for *conditional* market participation. Further, given Option 2 is proposed for availability only in competitive situations (i.e. greater than three project sponsors), cost caps are already permitted under FERC Order 100. Thus Option 2 is redundant to Option 3 since a developer can bid a cost cap under Option 3 and share in the market profits with customers.

[3] CAISO SATA Second Revised Straw Proposal, p. 23.

Option 3

SCE supports the adoption of Option 3, as it includes the element of Option 1 that provides for full cost-of-service based cost recovery, but proposes that any energy market crediting must provide incentives for customers and the asset owner to benefit. The starting point for this option assumes the SATA owner will fully recover through cost-of-service based revenues its SATA costs, consistent with how PTOs currently recover their costs for conventional transmission assets. Additional earnings from market participation should benefit transmission customers and the SATA owner. That is, the owner through its management of the SATA resource should be allowed to keep some amount of market "profits" for assuming market risks and providing ratepayers a "rate-reduction service", and use the additional "profits" to offset costs recovered through the Transmission Access Charge (TAC) to benefit transmission customers. SCE supports the split between the TAC and resource owner being part of the bid when the project is competitive. SCE also recommends that Option 3 be available for direct assigned projects with a "safe harbor" provision to negotiate a reasonable split of market profits between customers and SATA resource owners. As noted above, a "safe harbor" split ensure customers are protected from being "over charged" while providing incentives for the asset owner to pursue market opportunities to the benefit of both the customers and the asset owner.

<u>Options in the event of insufficient qualified project sponsors</u>

The ISO proposal would require all SATA projects sponsors to also submit a full cost-of-service bid as described in option 1, above. This bid would to be used in instances when there is fewer than three qualified project sponsors.

Please state your organization's position as described in the Second Revised Straw Proposal (support, support with caveats or oppose). If you support with caveat or oppose, please further explain your position and include examples.

Comments:

SCE recommends that even if there are fewer than three qualified project sponsors, Option 3 should be an available choice so long as there is a "safe harbor" whereby the percentage split of market profits would be subject to negotiation.

<u>Contractual Arrangement</u>

The ISO proposes to establish defined three contract durations: 10, 20, and 40 years. Additionally, the ISO has eliminated its previously proposed TRR capital credit in favor of contractual requirements for maintenance of the resources.

Please provide comments on these two modifications to the ISO's proposal, stating your organization's position as described in the Second Revised Straw Proposal (support, support with caveats or oppose). If you support with caveat or oppose, please further explain your position and include examples.

Comments:

SCE supports the proposal to establish three contract durations: 10, 20, and 40 years. This will allow the CAISO and the SATA owner to appropriately account for the resource's underlying technology, and negotiate terms and conditions specific to the resource's capabilities and expected lifecycle.

Separately, as an alternative to some form of a TRR crediting mechanism to address concerns relative to the accelerated degradation due to a SATA resource's participation in the market, it will be critical to develop the appropriate performance and maintenance/replacement obligations in the new hybrid contractual agreement. SCE asks the CAISO to clarify how resources with different expected durations will be compared in the TPP.

Market Participation

The ISO has proposed that a SATA resource will be provided notification regarding its ability to participate in the market prior to real-time market runs, but after the day-ahead market closes. The ISO will conduct a Load based SATA notification test to determine a SATA resource's eligibility to participate in the real-time market.

Please state your organization's position as described in the Second Revised Straw Proposal (support, support with caveats or oppose), including any alternative proposals. If you support with caveat or oppose, please further explain your position and include examples (please note that any alternative proposals should be specific and detailed).

Comments:

SCE opposes the CAISO's proposal which would essentially limit the SATA resources' market participation opportunities to the real-time market. Energy storage resources provide significant potential value in the ancillary markets, where transactions are primarily handled in the day-ahead market. Thus, the de-facto exclusion of the SATA resources from the day-ahead market may unnecessarily eliminate a large swath of the SATAs' market participation opportunities. SCE believes the CAISO has the ability to release SATA resources for day-ahead market (DAM) participation. We note this release does not guarantee that, based on changing conditions, the CAISO will not "recall" the units prior to real-time. The asset owner should be aware of these risks and participate in the DAM accordingly. For example, there may be instances where a SATA resource was selected to relieve a peak-loading condition during the summer months. In such instances, it would be reasonable to assume that such resource should be able to participate in the DAM during the spring months. Also, as was raised by a stakeholder during the August 23, 2018, stakeholder meeting, the CAISO may consider exploring an operational reliability margin less than the currently contemplated 10% level as part of its load based notification test to increase the SATA resources' market participation opportunities.

Consistent with FERC Policy Statement

The ISO believes the revised straw proposal is consistent with the FERC Policy Statement. Specifically, that the straw proposal does not inappropriately suppress market prices, impact ISO independence, nor result in double recovery of costs.

Please state your organization's position as described in the Second Revised Straw Proposal (support, support with caveats or oppose). If you support with caveat or oppose, please further explain your position and include examples. If you oppose, please clarify why and how the ISO might address this issue.

Comments:

SCE's recommendation of making available Option 3 along with a "safe harbor" provision for the profit-sharing split in instances where there is insufficient competition (i.e. less than three qualified project sponsors) or for direct assigned projects is consistent with the FERC Policy Statement.

Draft final proposal meeting or phone call

The stakeholder meeting for the second revised straw lasted approximately 2.5 hours. As a result, the ISO requests stakeholder feedback regarding whether an in-person meeting is necessary for draft final proposal or if a stakeholder phone call will allow the ISO to adequately address the remaining issues in the draft final proposal.

Please state your organization's position as described in the Second Revised Straw Proposal (support, support with caveats or oppose). If you support with caveat or oppose, please further explain your position and include examples.

Comments:

SCE supports an in-person meeting after the posting of the draft final proposal to address the remaining issues.

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:

No comment.