

Comments of Boston Energy Trading and Marketing on CAISO's CRR Auction Efficiency Track 1B Final Proposal Addendum

Boston Energy Trading and Marketing ("Boston Energy") appreciates the opportunity to provide comments on the CAISO's Storage as Transmission Asset (SATA) Straw Proposal issued on May 18, 2018. Boston Energy supports the ISO's continued efforts to integrate storage resources into its markets, but feels the straw proposal lacks the necessary details to ensure rate-based storage assets won't inappropriately suppress competitive market prices. We urge the CAISO to expand upon this critical element of the design in future proposal interactions.

Straw Proposal Fails to Provide Sufficient Detail how Storage as Transmission Assets (SATA) Won't Suppress Competitive Wholesale Prices

FERC's policy statement issued in February 2017 is very clear that if an electric storage resource seeks to recover its costs through both cost-based and market-based rates concurrently the following issues should be addressed:

- (1) The potential for combined cost-based and market-based rate recovery to result in double recovery of costs by the electric storage resource owner or operator to the detriment of cost-based ratepayers;
- (2) The potential for cost recovery through cost-based rates to inappropriately suppress competitive prices in the wholesale electric markets to the detriment of other competitors who do not receive such cost-based rate recovery; and
- (3) The level of control in the operation of an electric storage resource by an RTO/ISO that could jeopardize its independence from market participants.

The straw proposal fails to adequately address the second concern raised by FERC. Simply stating that because the market is already competitive and SATA resources would have little to no impact on market prices because they will charge and discharge at different periods is not sufficient evidence ensuring inappropriate suppression of market pricing will not occur.

Generally speaking if a SATA resource obtains net positive revenues in the wholesale market (and then transfers some portion back to rate payers), isn't it strictly correct that these revenues from the competitive market are decreasing revenue that another competitive market participant would have received, and as such this by definition suppresses market prices in contradiction to FERC policy. As stated above the straw proposal argues that the impact will be minor, because the market value will be higher during the times the asset will have switched to transmission mode. But this is a logical contradiction – if the value from the market is so low as to have negligible market impact, then the amount of revenue should also be negligible, and then the benefit to consumers should also be negligible. If there is significant value extracted from the market by a SATA resource, this can only happen if the effect of the asset is that it is suppressing prices by displacing a higher cost generation or storage asset seeking the same revenue. Given this logical conundrum, it's unclear how the straw proposal complies with the FERC policy of not suppressing prices.

For example, the scenario that the SATA resource receiving rate recovery bids regulation up/down in the wholesale market, and clears the market, has by definition displaced a higher-cost bid. This by definition suppresses prices. Then the policy issue is whether this price suppression is inappropriate. Taking this example to an extreme, suppose 100,000 MW of SATA resources were suddenly placed on the grid. It's a near certainty that the regulation up/down price would drop to zero and the market value gained by the SATA resource and passed back to rate

payers would be zero. Whatever value SATA resources were supposedly passing back to rates payers is now zero (except they indirectly get the benefit of wholesale prices collapsing).

Straw Proposal Fails to Clarify if SATA Resources in Transmission Mode can Provide Market Services via Out of Market Actions

The straw proposal lacks detail on what restrictions will be placed on CAISO and/or the transmission owner for operating the SATA resource when it is in transmission mode. The straw proposal suggest that SATA resource in transmission mode will not be allowed to submit market bids, but nowhere in the proposal does it discuss out of market actions taken by the CAISO or the transmission owner. Will the SATA resource be allowed to provide any wholesale market product, whether it gets paid for it or not, via out of market actions taken by either the ISO or the transmission owner?

For example, will the SATA resource be allowed to provide regulation service in transmission mode even if it is not receiving market revenues and /or allowed to inject /withdraw energy to the grid while in transmission mode. Specific rules need to be developed to prevent SATA resource from providing services that impact market pricing during periods when they're operating in transmission mode. Both of these examples go to the large issue of the straw proposal lacking sufficient detail on how the CAISO will ensure SATA resource will not inappropriately suppress wholesale market pricing.

Submitted by,

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