

## COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE:

### Pay for Performance Regulation Year 1 Design Changes

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Submitted by	Company	Date Submitted
Chris Edgette 510.665.7811 x102 <a href="mailto:cedgette@storagealliance.org">cedgette@storagealliance.org</a>	California Energy Storage Alliance	October 10, 2014

The California Energy Storage Alliance (CESA) appreciates the opportunity to participate in and comment on the pay for performance regulation tariff changes recommended by the CAISO. These comments are based upon CESA's participation in the September 10, 2014 stakeholder meeting and its review of the CAISO's "Pay for Performance Regulation Year One Design Changes – Draft Final Proposal," released September 26, 2014, and are supported by CESA's prior comments on this matter dated September 3, 2014.

In the Draft Final Proposal, the CAISO recommends two changes to its pay for performance regulation tariff: (1) modification of the monthly accuracy calculation from a simple average to a weighted average and (2) reduction of the minimum performance threshold to 25%.

#### Weighted Average Monthly Accuracy Calculation

CESA understands and agrees with the CAISO's argument related to calculation of the monthly accuracy calculation. As a result, CESA supports the CAISO's recommendation that a resource's monthly accuracy calculation should be based on a weighted average rather than a simple average.

#### Minimum Performance Threshold

Per the CAISO's Draft Final Proposal, FERC mandated that the CAISO implement pay-for-performance payment for regulation because it had "determined that the then-effective compensation methods for regulation service in organized markets ***failed to acknowledge the inherently greater amount of regulation service provided by faster-ramping resources and that certain practices result in economically inefficient dispatch of resources providing regulation service.***" (emphasis added) On its face, lowering the minimum performance threshold would seem to be in conflict with FERC's direction.

However, the CAISO has a legitimate reliability concern over what would happen if it disqualified most of the resources providing regulation service at present. The Draft Final Proposal also notes, though, that the surge in the number of fast-responding energy storage resources entering the queue could result in a future change in the mix of resources providing regulation service. Furthermore, it ***"anticipates that fast responding and highly accurate resources will prioritize regulation compensation through mileage payments rather than the traditional capacity payments."*** (emphasis added)

Somewhat oddly, the Draft Final Proposal immediately follows with ***“As a result, the ISO believes that significant redesign of the pay for performance regulation market design is unwarranted at this time.”*** (*emphasis added*) This suggestion does nothing to incentivize these fast-response energy storage resources to actually develop their projects.

The logic of not wanting to disrupt the market now has merit, so the current shift to a 25% minimum performance threshold makes sense, but this change should be clearly stated as temporary, with a date certain being identified upon which the accuracy threshold would shift back to 50% (or even higher). This date certain would send the market signal to those fast-response resources in the queue (as well as those contemplating entering the queue) to move forward with the development of their projects and move the CAISO toward more accurate and efficient regulation service. As shown in CESA’s prior comments on this matter, these fast-response resources can reduce regulation costs, so establishing a sunset date for the 25% minimum performance threshold and incentivizing fast-response resources to proceed with development would ultimately be good for ratepayers.

## Conclusion

CESA believes that improving the performance of the regulation fleet should remain a priority for the CAISO. With regard to the CAISO’s specific recommendations in its Draft Final Proposal for changes to its pay for performance regulation tariff:

1. CESA supports the CAISO’s recommendation that a resource’s monthly accuracy calculation should be based on a weighted average rather than a simple average; and
2. CESA supports the CAISO’s temporary lowering of the minimum performance threshold to 25%, but CESA suggests that the CAISO clearly state that the change is temporary and that the threshold will return to at least 50% (or higher) by January 1, 2018. CESA supports the CAISO’s commitment to performing an annual review to reanalyze the risk of decertification, with the option to raise the threshold sooner than 2018. Such a move will encourage the development of fast-response regulation resources and the related reduction in regulation service costs.

Finally, CESA thanks the CAISO for continuing to work to ensure that its market rules appropriately value resources that promote reliability and efficiency.