

**COMMENTS OF THE CALIFORNIA STORAGE ALLIANCE  
ON THE CAISO'S REVISED DRAFT FINAL PROPOSAL FOR PARTICIPATION OF  
NON-GENERATOR RESOURCE IN CALIFORNIA ISO ANCILLARY SERVICES MARKETS  
FEBRUARY 24, 2010**

The California Storage Alliance (CESA) appreciates the opportunity to offer comments in general support of the CAISO's Revised *Draft Final Proposal for Participation of Non-Generator Resources in California ISO Ancillary Services Markets*, dated February 10, 2009. The proposal is within striking distance of creating an option for energy storage resources to provide ancillary services in large part because it takes into account substantial input since September 2009 from CESA, and its members, particularly A123, Altairnano, and Beacon Power.

The CAISO's agreement to allow the 5-minute energy market to use the "Regulation Energy Management" (REM) option should allow fast storage technologies to provide full regulation capability for the entire hour, on a comparable basis to generation resources. However, CESA shares Beacon Power's concern expressed in comments submitted today that limiting the CAISO's procurement of its regulation requirements from REM resources to 10% could defeat the entire purpose of the REM program to rapidly gain significant operating experience with storage in its regulation market.

Capping procurement at 10% of the CAISO's regulation requirements will inevitably create a "chicken and egg" problem if the capped quantity cannot support the building of a new resource, because the 10% market cap will not be lifted until new resources are built and interconnected. The CAISO will certainly have ample time to review market data and, if necessary, make on-going changes to its market design because: (i) it always has the ability to review and revise market rules as the market develops, and (ii) implementing rules will allow the CAISO discretion to suspend the REM program if necessary for reliability reasons.

CESA does not believe that a 10% cap is needed, and may indeed be rejected by the FERC, since the CAISO has more than sufficient administrative tools available to manage the REM option. Instead, the CAISO should simply open up the program and see how the market responds. If it proves prudent, the REM option could be limited and continued in effect only with grandfathered projects that have made financial commitments to building resources up until that time. This could occur at any time with or without a cap in place, so the cap would provide no added benefit.

If a cap must be included in the CAISO's rules, it should be set somewhere in the range of 50% of the regulation market. Assuming reliability concerns are justified, more than that amount could begin to have the CAISO "put all of its eggs in one basket." Much less than that amount could present potentially intractable market issues among market participants that would discourage investment. Of course, traditional generators that can sell both energy and

regulation should not be allowed to participate in the REM option because that would defeat the purpose of developing energy storage tariffs to ensure that the CAISO benefits from the provision of lower cost energy storage.

If a cap must be adopted, the CAISO will need to at the same time address a number of issues that can be readily avoided if there were no cap in the first place. Immediately obvious examples include:

- The CAISO could be forced to decide which bid to select where bid prices are the same but selection of all of them would put the CAISO over the cap.
- One large project could lock out other market participants, and might prevent the CAISO from buying all the services it needs.

On the other hand, certain minimum measures might be considered to mitigate the negative feature of a cap such as the following:

- The CAISO should have the authority to raise the cap at its discretion.
- Timelines should be established that define dates certain for when the cap will be reached and reevaluated (of course it could be lifted prior to this date).

The CAISO has also proposed that all REM-related regulation awards should be disqualified from providing regulation service in real time if the CAISO encounters energy market problems preventing full use of the REM option. This proposal is clearly inappropriate because if the shortfall were, for example, only 10 MW, it would make no sense to remove 40 MW of regulation capacity from the market without replenishment. Moreover, if the CAISO has insufficient energy in the upward direction, there would be no reason why energy storage cannot continue to provide downward regulation throughout any partial suspension of the REM option.