

PAY FOR PERFORMANCE REGULATION STRAW PROPOSAL

December 19, 2011

The California Energy Storage Alliance (CESA) strongly supports the positive direction and constructive tenor of the CAISO's *Pay for Performance Regulation Straw Proposal*, dated December 5, 2011 (Straw Proposal). CESA wholly supports the CAISO's proposed timeline to implement FERC Order 755.

CESA supports the following comments submitted on the Straw Proposal by Beacon Power:

- A reasonable methodology for calculating the mileage multiplier using actual daily data from two days prior to the trade date would be to use actual data from the same day of the week from a week prior to the trade date, in order to recognize system variations that occur depending on whether a day is a weekday or weekend.
- A reasonable methodology for disqualifying a resource would be to use a rolling 100-hour average and the resource must re-certify if its rolling average falls below 50% accuracy. This is a better measure of consistent under performance. Also, we recommend the ISO clarify the testing procedure and requirements for both initial certification to provide regulation and the requirements to re-certify.
- The CAISO should ensure that if a resource responds to its dispatch signal accurately it is included in the mileage payment because a fast-ramping resource has the potential to provide more actual regulation service with a portion of its capacity than a slower-ramping resource with its full capacity available. Mileage payments should always reflect actual service provided.
- The measurement of accuracy must account for any latency that may occur in the telemetry of the system.

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CESA also supports the following clarifying questions posed by A123:

Section 5.1 uses the term “expected mileage from 1 MW of regulation capacity.” Is this amount based on the average regulation resource? The paragraph states that the numerator for the average will be the sum of the “total mileage for all hours in the day.” Would this sum include “the total mileage for all hours in the day” *across all resources*?

Section 5.2 provides a cost minimization example (Table 2) that uses combinatorial resource selection (i.e. enumerate all possible combinations of resources to select the least cost solution). PJM has proposed a marginal resource selection (i.e. mileage and capacity bids are weighted and combined to form a single price; lowest-cost resources are selected until the regulation requirement is satisfied). Please confirm optimization method that the CAISO is proposing

Also in Section 5.2, is a resource’s historical performance considered when selecting the least-cost portfolio? For example, suppose two identical resources submit identical bids. One resource has a perfect historical performance score and the other resource has a poor score. The current PJM proposal adjusts the bid of the lower-performing resource to make it look more expensive, so that the higher performing resource would be selected first. The optimization methodology in the Straw Proposal would not appear to differentiate between these two hypothetical resources. At a minimum, the historical score should be used as a tiebreaker. Ideally, since an accurate resource is more valuable than an inaccurate one, that value differential should be considered in the optimization process.