

PAY FOR PERFORMANCE REGULATION DRAFT FINAL PROPOSAL

February 27, 2012

The California Energy Storage Alliance (CESA) strongly supports the CAISO's *Pay for Performance Draft Final Proposal*, dated February 13, 2011, as amended by a Final Proposal Addendum dated February 22, 2012 (Amended Draft Final Proposal), and the discussion of the presentation material used in the stakeholder meeting held on February 14, 2012 (Presentation). On the whole, the changes made to the predecessor Revised Straw Proposal to arrive at the Amended Draft Final Proposal are commendable in their balanced approach to encourage deployment of energy storage systems and other more traditional resources in an even-handed manner.

CESA continues to strongly support the timeline the FERC ordered the CAISO to implement by FERC Order 755. CESA specifically supported the CAISO's plan to submit its Revised Straw Proposal to its Board of Governors for approval at the Board's March 22, 2012 meeting so that it can be submitted to FERC by the April 28, 2012 compliance deadline.

CESA was very pleased to review FERC's order in *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, Docket Nos. RM11-7-001 and AD10-11-001, issued on February 16, 2012. FERC's order correctly denies Southern California Edison Company's (SoCal Edison's) request for rehearing of Order No. 755. The rule adopted in Order 755 revised FERC's regulations to require a two-part payment, including both a capacity payment and a performance payment, for frequency regulation service provided in organized wholesale electric markets, in order to ensure just and reasonable and not unduly discriminatory or preferential frequency regulation rates.

The order correctly denies SoCal Edison's request for rehearing, explaining that the performance payment should reflect the generator's response to the dispatcher's instructions and that using zones or pricing regions in developing the rates and payments was an issue to be addressed case-by-case in the context of the individual ISOs' and RTOs' compliance filings. CESA's interpretation of FERC's order is that there should be no further uncertainty of any kind as to the intent to keep implementation of Order 755 on FERC's schedule.

CESA is quite concerned, however with Section 10 of the Addendum that reads as follows: "The ISO requests comments from stakeholders on the proposed market design described in this

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draft final proposal. The ISO specifically requests stakeholder comments on any concerns with delaying implementation of this market enhancement until the spring of 2013. Based on current market enhancements scheduled to go into production in the fall of 2012 and the market system changes necessary to design, test and implement a performance payment for regulation pursuant to Order 755, the ISO currently intends to request authority to implement a performance payment for regulation in the spring of 2013.” The CAISO’s assurance that any delay, if granted by the FERC, would only relate to software upgrades and the like, not tariff filings.

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