Stakeholder Comments

Submitted by	Company	Date Submitted
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CESA appreciates the opportunity to submit these comments on the Frequency Response Phase 2 Issue Paper.[1]

CESA commends the California Independent System Operator (CAISO) for focusing on long-term market structures for primary frequency response (PFR) procurement and compensation in Phase 2 of this initiative. While Phase 1 measures modified requirements for generators with governor controls and focused on procuring transferred PFR from other Balancing Authorities, such preliminary solutions, implemented quickly to address the looming Primary Frequency Response Obligation (FRO) requirements of NERC BAL-003-1, may lack the efficiency and non-discriminatory nature of an 'in-market' solution wherein PFR capacity is explicitly procured and reserved. The Phase 1 measures were a stop-gap measure rather than a mechanism to achieve long-term grid reliability.

The CAISO generally prefers market mechanisms to procure resources needed to meet a grid reliability need because such mechanisms are more efficient and reduce the likelihood of a deficiency or excess of the needed grid service. CESA agrees, and believes that the dedicated focus of Phase 2 of this initiative should be on developing the market mechanisms to efficiently procure PFR capabilities. CESA raises this point because the Federal Energy Regulatory Commission (FERC) issued a Notice of Proposed Rulemaking (NOPR) on November 17 to require all synchronous and non-synchronous newly interconnecting large and small generators to adhere to proposed PFR operating requirements (*i.e.*, certain deadband and droop settings).

Although the NOPR may affect the CAISO in terms of operating requirements for new (and potentially existing) generators, CESA believes that the CAISO should forge ahead and focus on developing market mechanisms to more efficiently and effectively procure PFR

[1] The views expressed in these comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (http://www.storagealliance.org/)

resources. In CESA's views, interconnection requirements and standards only serve to increase the costs of all generating resources while inefficiently meeting PFR needs. The discussion in Phase 2 should therefore not be between whether the CAISO should pursue interconnection requirements or pursue market mechanisms to procure PFR resources, but on which market mechanisms to develop and how to procure these resources through these mechanisms (*e.g.*, compensation for the capital costs to provide frequency response capabilities and for fast-response capabilities). PFR is particularly well-suited for in-market solutions as either a constraint or a product.

In these discussions of market mechanisms, Phase 2 should focus on the merits, structure, and compensation for a Fast PFR product. As noted in the Issue Paper, the greatest reliability value is gained from PFRs that are able to respond immediately following an event, referencing how energy storage has high reliability value due to its speed and near one-to-one ratio of PFR to reserved capacity[2] (unlike traditional inertial resources that can provide PFR from only a portion of their capacity). These superior PFR capabilities should be compensated in any new market mechanism.

Overall, CESA strongly supports the Issue Paper, which highlights the CAISO's preference for market mechanisms and identifies the key challenges with efficiently procuring PFR under current market designs. CESA's main point in these comments is to ensure that the focus of Phase 2 remain on market mechanisms for procuring PFR and foreclose any consideration of interconnection and/or operating requirements to provide PFR, as is being done in the FERC NOPR.

[2] Issue Paper, p. 31.