

**MEMORANDUM**

**Date : August 11, 2011**

**To : The Commission  
(Meeting of August 18, 2011)**

**From : Elizabeth Dorman, Legal Division  
Mihai Cosman, Energy Division**

**Subject : Staff Seeks Authority to File Comments on the FERC's Notice of  
Inquiry on Third-Party Provision of Ancillary Services; Accounting  
and Financial Reporting for New Electric Storage Technologies  
(Docket Nos. RM11-24, AD10-13)**

**EXECUTIVE SUMMARY:** Ancillary Services are a group of energy products offered and dispatched through the CAISO's wholesale energy markets that the CAISO uses to help maintain the grid's system frequency to a narrow bandwidth around 60 hertz.<sup>1</sup> This system frequency is impacted as demand and generation add and subtract electrons from the grid. California's current incorporation of significant volumes of intermittent renewable resources into the grid may require additional Ancillary Services to maintain short and long-term grid reliability.

The FERC has observed that existing wholesale market rules in the Independent System Operators/Regional Transmission Organizations (ISO/RTOs) may frustrate the development of technologies that may be able to provide Ancillary Services, while those who must purchase Ancillary Services have expressed concern about the availability of such services. The FERC therefore seeks comment on how to facilitate the development of robust competitive markets for Ancillary Services provided by any/all resource types,

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<sup>1</sup> See definition of Ancillary Services at  
<http://www.caiso.com/market/Pages/ProductsServices/Default.aspx>

including but with particular attention to Electric Storage technologies. Towards this goal, the FERC seeks feedback on two particular topics:

- 1) Whether revising the current “Avista restriction,”<sup>2</sup> which bars third-party market-based sales of Ancillary Services absent a showing that the seller does not have market power, could facilitate a robust supply of Ancillary Services while providing just and reasonable rates, and
- 2) Whether it would be necessary or advisable to revise current accounting and reporting requirements for FERC jurisdictional entities that use storage for jurisdictional sales.

**BACKGROUND:** In April of 2010, the FERC opened Docket Number AD10-11 to consider the value of new energy technologies that have the potential to respond to a regulation dispatch signal faster and follow it more accurately than traditional generation resources. During the ensuing FERC Technical Conference, it was discussed that some studies have shown that increasing the volume of faster ramping resources to the grid may decrease the overall volume of generation capacity necessary to provide grid stability, which may reduce overall energy procurement costs. A higher volume of fast response resources may also aid in the integration of intermittent renewable resources by filling in for their inconsistent power production and/or easing grid stress caused by daily and more frequent ramping up and down of power production from such resources. This Notice of Inquiry addresses questions arising from such analysis.

**DISCUSSION:** Staff requests authority to file comments along the lines of the points discussed below:

- 1) While the CPUC is also analyzing how electricity storage technologies may facilitate California’s aggressive environmental goals,<sup>3</sup> the FERC should remain mindful that market power mitigation tools are in place for valid reasons and should not be dismantled without thoughtful analysis. Novel, helpful technologies should be compensated through fair rates rather than through exploitation of known unjust market effects and/or flaws.

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<sup>2</sup> *Avista Corp.*, 87 FERC ¶ 61,223 (*Avista*), order on reh’g, 89 FERC ¶ 61,136 (*Avista Rehearing Order*) (1999).

<sup>3</sup> *Order Instituting Rulemaking Pursuant to Assembly Bill 2514 to Consider the Adoption of Procurement Targets for Viable and Cost-Effective Energy Storage Systems*, issued in R. 10-12-007 on December 21, 2010. See also, *Electric Energy Storage: An Assessment of Potential Barriers and Opportunities*, issued by the CPUC’s Policy and Planning Division on July 9, 2010, available at [www.cpuc.ca.gov/PUC/energy/reports.htm](http://www.cpuc.ca.gov/PUC/energy/reports.htm).

- 2) Energy Storage should be subject to the same or similar reporting and accounting rules as traditional resources subject to FERC jurisdiction. Such data may be helpful to determining the effectiveness of such technologies as grid elements and to determine whether current or future market structures may impede robust Ancillary Services markets.

**ACTION REQUESTED:** Staff request authority to submit comments to the FERC consistent with the discussion above.

For questions or further information, please contact the assigned staff:  
**Elizabeth Dorman (EDD/3-1415).**

EDD:ngs