130 FERC ¶ 61,242
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 26, 2010

In Reply Refer To:
California Independent
System Operator Corporation
Docket No. ER10-660-000

California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Attention: Beth Ann Burns, Senior Counsel

Reference: Letter Agreement for Bidding of Regulation Ancillary Service by Sano Regulation Center and Request for Waivers

Dear Ms. Burns:

1. On January 27, 2010, the California Independent System Operator Corporation (CAISO) submitted a Letter Agreement for Bidding of Regulation Ancillary Service by Sano Regulation Center (Sano)[1] between the CAISO and AES Energy Storage LLC (AES) (Agreement). The Agreement sets forth the terms and conditions under which Sano will demonstrate its ability to provide regulation service to the CAISO and subsequently provide regulation service until the Commission approves generally applicable amendments to the CAISO Open Access Transmission Tariff (CAISO Tariff) for the provision of regulation service by non-generation facilities. The CAISO requests that the Commission accept the Agreement for filing, effective February 9, 2010. The

[1] Sano is an advanced energy storage technology owned and operated by AES. CAISO January 27, 2010 Filing, Att. 1 at 1. It consists of lithium ion nano-phosphate batteries with a maximum energy storage capacity rating of 2.0 MW, which have been installed and connected to Southern California Edison Company's (SoCal Edison) distribution system. *Id*. According to the CAISO, battery storage facilities such as Sano share certain characteristics with pumped storage and are at times similar to generation or load. The CAISO also notes that these battery storage facilities offer potential cost and operational advantages over pumped storage including nearly instantaneous ramping and switching between production and consumption of energy.

CAISO also requests waiver of any applicable requirements of Part 35 of the Commission's regulations to permit the Agreement to become effective as proposed.

2. The CAISO explains that it has initiated a stakeholder process to resolve technical, market and reliability issues to enhance participation of battery storage facilities and other non-generation resources in the CAISO's ancillary services market. Upon completion of this stakeholder process, the CAISO intends to establish policies and procedures for procuring ancillary services from non-generation resources. According to the CAISO, these policies and procedures, and any subsequent changes to the CAISO Tariff to accommodate such resources, will apply to Sano and other future non-generation resources that may seek to participate in the CAISO's ancillary services market. The CAISO explains that the Agreement permits Sano to participate in the regulation services market on an interim basis pending the conclusion of the stakeholder process and implementation of any resulting policies and procedures.

3. The CAISO states that the Agreement covers (1) an initial test period during which time the CAISO will evaluate and confirm Sano's ability to provide regulation service within the parameters set forth in the Agreement; and (2) an interim certification period which will commence following successful resolution of any issues that may arise during the initial test period. The Agreement provides interim terms and conditions to be in place during this second phase, which will permit AES to actively bid Sano into the CAISO markets to provide regulation service. The CAISO states that these provisions, in conjunction with current CAISO Tariff provisions, will govern Sano's interim participation in the regulation services market.

4. The CAISO states that, during the initial test period, it will not compensate Sano for the provision of regulation service and will not rely on regulation service provided by Sano to meet its ancillary service requirements. The CAISO also states that it will not subject Sano to market charges during this period. Therefore, the CAISO states that Sano will be financially neutral during the test period. According to the CAISO, to the extent Sano incurs net charges during this period, the CAISO has reserved $20,000.00 to absorb potential market costs that would otherwise result from charges incurred by Sano based on its participation in the regulation market. The CAISO states that it has structured its test plan schedule to allow it to manage its cost exposure. The CAISO explains that, after each test event, it will assess how much of the reserve amount remains and, if insufficient funds are available, the CAISO may terminate remaining test events or mutually agree with AES on test modifications.

5. Under the interim certification procedures, AES will be permitted to submit bids on behalf of Sano for regulation service in the CAISO's ancillary services market and will be compensated in accordance with settlement rules. According to the CAISO, while the bidding and scheduling rules employed during the interim certification phase will be similar to the initial test period, AES will be able to submit economic bids for regulation during this second phase. The CAISO states that it will rely on the capacity represented

by Sano's bids as part of the regulation capacity required by the CAISO to meet applicable reliability standards. The CAISO explains that AES will be treated as other market participants bidding generation into the CAISO's regulation services market and, except as otherwise provided in the Agreement, Sano will be subject to the same requirements and standards as generators providing regulation service. The CAISO adds that AES will receive compensation and be charged through the market.[2]

6. Notice of the filing was published in the *Federal Register*, 75 Fed. Reg. 6,197 (2010), with interventions and comments due on or before February 17, 2010. The California Public Utilities Commission (CPUC) filed a notice of intervention and motion for extension of time to comment. On February 16, 2010, the Commission denied the request for extension of time.[3] AES; Modesto Irrigation District; Pacific Gas & Electric Company (PG&E); and the M-S-R Public Power Agency and the City of Santa Clara, California, jointly, filed timely motions to intervene. AES and PG&E filed comments in support. SoCal Edison filed a motion to intervene out-of-time and comments. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2009), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2009), we will grant SoCal Edison’s late-filed motion to intervene given its interests in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

7. AES strongly supports the Agreement. AES claims that energy storage devices have the potential to provide regulation and other grid support services with lower capital cost, better performance and greater efficiency than conventional generation. AES states that acceptance of the Agreement will allow AES to demonstrate the integration of energy storage devices into the CAISO systems and begin to recoup some of the capital it has invested in Sano.

8. PG&E generally supports the Agreement. In particular, PG&E supports the use of new and advanced technologies to improve the reliability and operation of the CAISO grid at a reasonable cost. PG&E anticipates that the information obtained from implementation of the Agreement will help to inform the CAISO’s stakeholder process related to the provision of ancillary service by non-generation resources. However,

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[2] The CAISO explains that the Agreement exempts AES from grid management charges associated with its load schedules, claiming that assessing such charges to this self-scheduled load would amount to double-charging the Sano load.

[3] Notice Denying Extension of Time, Docket No. ER10-660-000 (Feb. 16, 2010).

PG&E states that the Agreement should not prejudge any policies ultimately adopted by the CAISO as a result of its stakeholder process.

9. SoCal Edison states that it supports demonstration pilot programs, like the Sano project, because they may provide useful technical information without having precedential impacts on further proceedings. SoCal Edison points out, however, that the Agreement incorrectly states that "AES's affiliate, AES Huntington Beach, LLC, and [SoCal Edison] have entered into an Interconnection agreement in accordance with [SoCal Edison]'s Wholesale Distribution Access Tariff [WDAT] and a Service Agreement for Wholesale Distribution Service under which [SoCal Edison] will provide energy to charge Sano's energy storage batteries when necessary."[4] SoCal Edison claims that it does not provide any entity with energy under its WDAT or a WDAT service agreement.

10. We accept the Agreement. It allows Sano to provide regulation service on an interim basis, and, as noted by CAISO, AES will be treated as other market participants bidding into the CAISO's regulation services market and, except as otherwise provided in the Agreement, Sano will be subject to the same requirements and standards as other market participants providing regulation service. The CAISO's stakeholder process through which the CAISO will develop policies for the provision of ancillary services will benefit from the experience gained from Sano's operations during both the initial test period and the interim certification period. Finally, we permit the Agreement to become effective February 9, 2010, as requested.

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.

[4] SoCal Edison March 4, 2010 Motion to Intervene Out of Time and Comments at 2 (citing CAISO January 27, 2010 Filing, Att. 1 at 3).