

138 FERC ¶ 61,123
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

Frequency Regulation Compensation in the Organized Wholesale Power Markets Docket Nos. RM11-7-001
AD10-11-001

ORDER NO. 755-A

ORDER DENYING REHEARING

(Issued February 16, 2012)

1. This order addresses Southern California Edison Company's (SoCal Edison) request for rehearing of Order No. 755.¹ Order No. 755 revised the Commission's regulations to require a two-part payment, including both a capacity 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.

I. Introduction

2. On October 20, 2011, the Commission issued Order No. 755, requiring regional transmission organizations (RTO) and independent system operators (ISO) to compensate frequency regulation resources based on the actual amount of frequency regulation service provided in responding to a transmission system operator's automatic generator control (AGC) signal for purposes of responding to actual or anticipated frequency deviations or interchange power imbalances. Specifically, Order No. 755 directs RTOs and ISOs to implement a two-part payment for frequency regulation service, including: (1) a capacity payment that includes the marginal unit's opportunity costs; and (2) a payment for performance that reflects the quantity of frequency regulation service provided by a resource when the resource is accurately following the dispatch signal.

¹ *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, Order No. 755, 76 FR. 67260 (Oct. 31, 2011), FERC Stats. & Regs. ¶ 31,324 (2011).

3. The Commission issued Order No. 755 based upon its finding that current rules in RTO and ISO tariffs which govern pricing and compensation for frequency regulation services in the RTO and ISO markets are unjust and unreasonable, and unduly discriminatory or preferential, because they compensate resources at the same level regardless of the different amounts of frequency regulation service provided.² The Commission determined that compensating resources without accounting for their actual amount of frequency regulation service provided results in unduly discriminatory rates. Accordingly, the Commission found that frequency regulation compensation in the RTO and ISO markets should reflect both a uniform capacity payment and a performance payment, in order to ensure just and reasonable rates that are not unduly discriminatory or preferential. These rates must be market-based and reflect the actual amount of frequency regulation service provided, thereby resulting in efficient price signals that appropriately compensate resources that are asked to do more work.³

4. As to the capacity payment, Order No. 755 requires RTOs and ISOs to pay all cleared frequency regulation resources a uniform clearing price that includes the marginal resource's opportunity costs. The uniform clearing price must be market-based, derived from market-participant bids for the provision of frequency regulation capacity. The Commission found that paying all cleared frequency regulation resources a uniform price that includes opportunity costs will ensure all appropriate costs are considered, send an efficient price signal, and be consistent with long-standing Commission policy approving uniform clearing prices.⁴

5. As to the performance payment, Order No. 755 requires the use of a market-based price, rather than an administratively-determined price, on which to base the frequency regulation payment. That is, the price must reflect the market-participant bid submitted by resources for the provision of frequency regulation service.⁵

6. Acknowledging that RTO and ISO markets do not operate in the same manner, Order No. 755 does not mandate which particular form the performance payment must take, specific bidding parameters, or other technical specifications. For purposes of calculating the performance payment, Order No. 755 requires RTOs and ISOs to account for frequency regulation resources' accuracy in following the AGC dispatch signal, as opposed to accuracy related to resources' contribution to correcting for area control error

² *Id.* P 64.

³ *Id.*

⁴ *Id.* P 99.

⁵ *Id.* P 128.

(ACE); however, Order No. 755 recognizes that an individual RTO or ISO is in the best position to design a method for measuring such accuracy within its system. Accordingly, Order No. 755 directs RTOs and ISOs to determine their own technical specifications for measuring accuracy in following the AGC dispatch signal, with the caveat that the same accuracy measurement must apply to all resources; RTOs and ISOs may not develop different accuracy metrics for different resources.⁶

7. Order No. 755 also provides that each RTO or ISO should be allowed to determine whether the operator or the market participant is to be responsible for managing energy limitations.⁷ Order No. 755 states that nothing therein mandates how RTOs and ISOs manage energy limitations on their systems.⁸ Further, the Commission declined to extend Order No. 755 to technical matters related to dispatch, finding beyond the scope of the proceeding, for instance, arguments that RTOs and ISOs use different frequency regulation signals for different resources. The Commission emphasized that Order No. 755 is limited to compensation.⁹ The Commission noted, however, that Midwest Independent Transmission System Operator, Inc. and New York Independent System Operator, Inc. have developed market provisions that manage the charge state of energy storage devices, and the Commission encouraged entities to work together with stakeholders to analyze potential impediments to new technologies in all markets.¹⁰

II. Request for Rehearing and Answers

8. SoCal Edison timely filed a request for rehearing. The California Independent System Operator Corporation (CAISO), Energy Storage Association, and Xtreme Power Inc. (Xtreme Power) each filed answers responding to SoCal Edison's request for rehearing.

⁶ *Id.* P 151-154.

⁷ *Id.* P 180.

⁸ *Id.*

⁹ *Id.* P 184

¹⁰ *Id.*

III. Discussion

A. Procedural Matters

9. Rule 713(d)(1) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.713(d)(1) (2011), prohibits an answer to a request for rehearing. Accordingly, we will reject the answers to SoCal Edison's request for rehearing.

B. Substantive Matters

1. Request for Rehearing

10. SoCal Edison seeks rehearing on two issues. First, SoCal Edison seeks rehearing regarding the performance payment. SoCal Edison believes that the Commission did not intend in Order No. 755 to apply the performance payment to a situation where an RTO or ISO must move a unit against the overall ACE correction in order to actively manage that resource's limitations. For example, SoCal Edison considers the case where an RTO or ISO needs regulation up movement, but has exhausted the energy from a battery and now must charge the battery (i.e., by issuing a regulation down instruction). SoCal Edison states that, even if the unit complies with this instruction, it should not receive a performance payment for taking this action, because the instruction was given to manage the battery's own use limitations and is against the RTO's or ISO's actual grid needs. SoCal Edison seeks a finding that Order No. 755 does not require RTOs and ISOs to make performance payments to regulation providers whose own limitations caused the need for the instruction when counter to grid needs.

11. Second, SoCal Edison requests a finding that, as used in Order No. 755's discussion, the phrase "uniform payment to all cleared resources"¹¹ means that all cleared resources in the same zone or pricing region should receive the same payment. SoCal Edison states that it supports uniform payments, but only when such payments are for resources procured in the same region, not in distinct market regions. In this regard, SoCal Edison notes that the CAISO currently splits its procurement of ancillary services between Northern and Southern California, and that clearing prices in these zones can differ. SoCal Edison states that this method appropriately values the services given the locational constraints that must be honored to maintain reliability. In contrast, a single clearing price for the entire CAISO would result in an unjust and unreasonable rate.

2. Commission Determination

12. The Commission denies SoCal Edison's request for rehearing.

¹¹ *Id.* P 198.

13. SoCal Edison first seeks a finding that the Commission did not intend for performance payments to be made in those instances when a resource's limitations cause the RTO or ISO to issue a dispatch instruction that is against overall ACE. We deny SoCal Edison's request. In Order No. 755, the Commission expressly declined to require a particular form of performance payment, specific bidding parameters, or other uniform technical specifications.¹² This includes managing the energy limitations of certain resources, such as those described by SoCal Edison here. In this regard, we note that RTOs and ISOs do not simply direct resources to provide frequency regulation in the direction that will drive ACE to zero. Instead, each RTO and ISO uses a complex algorithm to dispatch their frequency regulation service resources – both up and down – which takes into account a resource's available capability. System operators do so in order to maintain the necessary flexibility of their resources fleet to address ever-changing loads and system conditions and optimal performance of all dispatched resources. Further, as ISO-NE noted in its comments to the Notice of Proposed Rule, such dispatch allows an RTO or ISO to take advantage of the extensive information that is available to it to produce a coordinated dispatch that produces the lowest cost result.¹³ The resulting instructions may vary, depending upon the current state of the relevant resource and upon the then-existing or anticipated circumstances. Not allowing for flexibility among RTOs and ISOs in this regard could result in sub-optimal performance by the fleet of dispatched resources.

14. Furthermore, in Order No. 755, the Commission found that “a resource must be measured [and compensated accordingly] based on the absolute amount of regulation up and regulation down it provides *in response to the system operator's dispatch signal*,” and not on contribution to correcting ACE.¹⁴ The Commission specifically declined to tie the performance payment to a resource's ACE correction, finding that such an approach would incentivize a resource to second-guess dispatch signals.¹⁵ SoCal Edison previously raised similar arguments as those presented here in comments filed earlier in this proceeding;¹⁶ SoCal Edison raises no arguments in this regard that were not already addressed in Order No. 755.¹⁷

¹² *Id.* P 100.

¹³ *Id.* P 144.

¹⁴ *Id.* P 133 (emphasis added).

¹⁵ *Id.*

¹⁶ SoCal Edison May 02, 2011 Comments at 6.

¹⁷ Order No. 755 FERC Stats. & Regs. ¶ 31,324 at P 131-134.

15. The Commission also denies SoCal Edison's request to find that the phrase "uniform payment to all cleared resources" means that all cleared resources "in the same zone or pricing region" should receive a uniform payment. This is a reliability and procurement concern similar to those the Commission specifically declined to address in Order No. 755.¹⁸ The needs of each RTO and ISO will be different, and we will allow each RTO and ISO to propose in its Order No. 755 compliance filing how the requisite uniform payment will apply in its particular pricing regions. While we declined in Order No. 755, and again decline here, to require a particular approach to this issue, we also add that Order No. 755 did not preclude the consideration of zones or pricing regions. Should an RTO or ISO propose to use zones or pricing regions as part of its Order No. 755 compliance filing, we will consider the merits of such an approach, as applicable to that specific RTO or ISO, at that time.

The Commission orders:

SoCal Edison's request for rehearing is hereby denied, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

¹⁸ *Id.* P 181 (noting that the Commission expects system operators to establish standards for qualification and participation in frequency regulation markets that will ensure reliability standards are met).