



Federal Energy Regulatory Commission
June 21, 2012
Open Commission Meeting
Staff Presentation
Item E-2 & E-3

"Good morning Mr. Chairman and Commissioners. Today we will provide a summary of E-2, a draft Notice of Proposed Rulemaking on Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies, and E-3, a draft Final Rule on the Integration of Variable Energy Resources. In addition to those of us seated at the table, other key members of the teams are here, including for E-2, Chris Handy from OE, Eric Winterbauer from OGC, and Greg Basheda from OEMR, and for E-3, Pamela Sporborg from OEPI, Travis McGee from OEMR, and Thanh Luong from OER. For E-3, we'd also like to recognize Sarah Crawford from OGC who is not able to join us today.

I will now ask Rahim Amerkhail to discuss the reforms proposed in E-2

Under the Commission's existing regulations, commonly referred to as the *Avista* restrictions after the case in which the Commission established its policy, a third party seller may not sell ancillary services without a showing of lack of market power to a public utility transmission provider that would use the transaction to meet its OATT obligation.

E-2 is a Notice of Proposed Rulemaking that seeks to revise these restrictions in several ways, both by modifying the showing an entity must make to establish it lacks market power and by establishing market power mitigation options in the absence of such a showing. Specifically, based on the rationale that the set of units that provide imbalance energy and the set of units that provide energy and capacity are sufficiently similar, the NOPR proposes to allow any entity with market based rate authorization for energy and capacity to sell imbalance energy at market based rates. The NOPR also proposes to create a rebuttable presumption of lack of market power for any entity that can supply no more than 20 percent of the ancillary service needs in the relevant geographic market.

For an entity that can not or chooses not to show that it lacks market power, E-2 proposed to mitigate the exercise of market power by allowing the entity to sell to a transmission provider that is meeting its OATT obligation at a rate up to either that transmission provider's OATT rate or the highest OATT rate for any transmission provider to which the seller can physically deliver the ancillary service in question. E-2 also proposes to allow an entity to use a competitive solicitation for the purposes of mitigation, provided the competitive solicitation meets certain guidelines.

E-2 also includes proposed changes to the *pro forma* OATT to extend the rationale behind the Commission's Final Rule on frequency regulation service compensation to regions outside of RTOs to enhance transparency to the self-provision of that ancillary service.

Finally, E-2 proposes to modify the Commission's accounting regulations to increase transparency for energy storage facilities. Specifically, the draft NOPR proposes to add new electric plant and O&M expense accounts to record the installed cost and operating and maintenance cost of energy storage assets and a new account to record the cost of power purchased for use in energy storage operations. In addition, the draft NOPR proposes to amend the Form Nos. 1, and 1-F to include the new accounts and amended schedules to report statistical and operational information on energy storage operations. Further, the draft NOPR proposes to amend a schedule of the Form No. 3-Q to include the proposed new account to record the cost of power purchased for use in energy storage operations.

I will now ask Jessica Cockrell to discuss the reforms adopted in E-3

E-3 is a draft Final Rule that seeks to remove barriers and remedies operational challenges related to the integration of an increasing amount of variable energy resources. Taken together, the reforms adopted and guidance provided in the draft final rule will allow for more efficient utilization of

transmission and generation resources to the benefit of all customers.

The draft Final Rule adopts the NOPR proposal to change the *pro forma* OATT so that public utility transmission providers must allow transmission customers to schedule transmission service at 15 minute intervals. The draft Final Rule establishes this requirement based on the need to allow transmission customers, including those with naturally variable output, to avoid generator imbalance penalties and thus ensure that the rate for generator imbalance service is just and reasonable. The draft Final Rule also describes the Commission's expectation that the 15-minute scheduling reform will eventually lead to lower costs associated with the capacity set aside to provide generator imbalance service.

The draft Final Rule allows entities to submit alternative proposals that are consistent with or superior to the 15-minute scheduling reform. Alternative proposal would need to provide equivalent or greater opportunities for transmission customers to mitigate generator imbalance penalties and for the public utility transmission provider to lower its reserve-related costs. This showing is relative to the market practices currently in place within the region, including the tools that already have been implemented to integrate VERs.

The draft Final Rule also adopts the NOPR proposal to change the *pro forma* LGIA to requires new VERs to provide meteorological and forced outage data to a transmission provider that will use the data to conduct power production forecasting. The draft Final Rule adopts the proposal so that public utility transmission providers will have the data needed to efficiently deploy resources to manage VER variability, and thus ensure that the costs associated with the capacity set aside to manage VER variability remain just and reasonable.

Finally, the draft Final Rule declines to adopt the NOPR proposal to create a *pro forma* OATT schedule for generator regulation and frequency response service. In declining to adopt the NOPR proposal, the draft Final Rule notes the need to provide public utility transmission providers with flexibility to design capacity services that align with the operational needs of a particular public utility transmission provider. The draft Final Rule provides guidance to transmission providers that would seek to recover the capacity costs associated with providing generator imbalance service.

Consistent with the NOPR, E-3 acknowledges on-going industry efforts to integrate VERs and explains that focusing on the particular set of reforms adopted in the draft Final Rule will provide a reasonable foundation for public utility transmission providers seeking to manage system variability associated with increased numbers of VERs.

I will now ask Arnie to discuss the interaction between E-2 and E-3

Staff believes the reforms proposed in E-2 and adopted in E-3 will be complementary. Specifically, we believe that allowing transmission customers to create and change transmission schedules on a 15 minute basis will provide the infrastructure to facilitate the trading of short-term ancillary services, like sub-hourly imbalance services, which will be enhanced by easing the *Avista* restrictions.

The transmission scheduling reforms adopted in E-3 will provide a measure of consistency in scheduling protocols across transmission providers, and the reforms proposed in E-2 should make ancillary service transactions easier to consummate. Staff believes these reforms will be particularly important for those public utility transmission providers that want to be able to buy ancillary services from others to help integrate VERs.

Therefore, staff anticipates that the draft Final Rule in conjunction with reforms of the *Avista* policy will enhance competitive and well-functioning ancillary services markets and facilitate more cost-effective integration of variable energy resources.

This concludes our presentation, we are happy to take any questions you may have."