



Federal Energy Regulatory Commission
July 18, 2013
Open Commission Meeting
Staff Presentation
Item E-22

"Good morning Mr. Chairman and Commissioners.

"E-22 is a Final Rule entitled Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies. This Final Rule is the culmination of a multi-office, multi-year effort to proactively review and adjust various Commission rules and practices in anticipation of changing industry circumstances, including the increasing need for ancillary services in some areas and the development and adoption of new power system technologies. This effort began with a relatively broad staff-level request for comments, and then progressed through both a Notice of Inquiry and a Notice of Proposed Rulemaking. At each phase, in response to stakeholder feedback, the Commission has refined the focus of its efforts onto the most promising reforms. As a result, this Final Rule addresses three main areas: reforms to our regulations governing market-based sales of ancillary services to a public utility transmission provider that is purchasing to satisfy its own OATT requirements to offer ancillary services to its own customers; reforms to the pro forma Open Access Transmission Tariff related to the speed and accuracy of resources used to provide Regulation and Frequency Response service; and reforms to the Commission's Uniform System of Accounts and related reporting requirements. Greg Basheda from the Office of Energy Market Regulation will discuss the first two, market-oriented areas of reform and then Christopher Handy from the Office of Enforcement will discuss the accounting and reporting reforms.

"The Final Rule reforms the Commission's existing regulations governing the sales of certain ancillary services at market-based rates, commonly referred to as the Avista policy. Under the Avista policy, a third-party seller authorized to make sales of energy and capacity at market-based rates may also sell ancillary services at market-based rates without first providing a market power study showing a lack of market power for those ancillary services. However, as relevant here the seller may not make such sales to a public utility transmission provider that would purchase the ancillary services to meet its OATT obligation, absent case-specific authorization from the Commission based on a market power study from the seller showing that it lacks market power in the sale of that ancillary service.

"The Final Rule modifies the Avista policy restrictions in several ways. Any entity with market-based rate authority for sales of energy and capacity will be permitted to sell imbalance services at market-based rates to a public utility transmission provider in the same balancing authority area, or to a public utility transmission provider in a different balancing authority area if those areas have implemented intra-hour scheduling for transmission service, without the need to provide a separate market power study. This intra-hour scheduling requirement is necessary to support the assumption in the existing market power screens that first-tier resources are able to compete with home balancing authority area resources. All public utility transmission providers should have implemented intra-hour scheduling prior to the effective date of this rule, in compliance with the requirement of Order No. 764 to do so by November 12, 2013. In addition, the Final Rule allows an entity with market-based rate authority for sales of energy and capacity to sell operating reserve services at market-based rates to a public utility transmission provider in the same balancing authority area, or to a public utility transmission provider in a different balancing authority area if those areas have implemented intra-hour scheduling for

transmission service that supports the delivery of operating reserve resources from one balancing authority area to another. Because operating reserve services have different requirements than imbalance services, and because these differences translate into a different potential impact on the assumption in the existing market power screens that first-tier resources are able to compete with home balancing authority area resources, entities seeking authorization to sell operating reserves at market-based rates to a public utility transmission provider will have to demonstrate to the Commission how the particular intra-hour scheduling practices in their region support the delivery of operating reserves from one balancing area to another.

“The Final Rule does not remove the general prohibition on third-party market-based sales of regulation and frequency response service and reactive supply and voltage control service to a public utility transmission provider that is purchasing to satisfy its own OATT requirements to offer ancillary services to its own customers. However, sales of these services will be permitted at rates not to exceed the buying public utility transmission provider’s OATT rate for the same service. In addition, third-parties may sell reactive supply and voltage control service or regulation and frequency response service to a public utility transmission provider at market-based rates if such sales are made pursuant to a competitive solicitation that meets the requirements of this Final Rule. While the record in this proceeding was insufficient to relieve the restrictions on reactive supply and voltage control service and regulation and frequency response service in the same manner as imbalance and operating reserves service, the Final Rule announces a new, separate proceeding to explore the technical, economic, and market issues concerning the provision of these services.

“The second broad area of market-oriented reforms relates to how public utility transmission providers must consider speed and accuracy of resources in making regulation reserve requirement determinations. Rather than adopting the initial proposal requiring the development of detailed tariff language describing the specific process to be used, the Final Rule requires each public utility transmission provider to add to its OATT Schedule 3 a statement that it will take into account the speed and accuracy of regulation resources in its determination of reserve requirements for Regulation and Frequency Response service, including as it reviews whether a self-supplying customer has made “alternative comparable arrangements” as required by the Schedule. This statement will also acknowledge that, upon request by the self-supplying customer, the public utility transmission provider will share with the customer its reasoning and any related data used to make the determination of whether the customer has made “alternative comparable arrangements.” In addition, to aid the transmission customer’s ability to make an “apples-to-apples” comparison of regulation resources, the Final Rule also requires each public utility transmission provider to post certain Area Control Error data, which will provide information about the speed and accuracy of regulation resources used by the public utility transmission provider.

“While the Final Rule does not adopt all of the reforms proposed in the NOPR, based on the record in this proceeding, we expect that the package of reforms that are adopted in this Rule will substantially enhance the opportunities for third parties to compete to make sales of ancillary services while continuing to limit the exercise of market power.

“Christopher will now discuss the accounting and reporting reforms.

“The Final Rule revises the accounting and reporting requirements under the Commission’s Uniform System of Accounts for public utilities and licensees and the annual and quarterly FERC forms, statements, and reports to better track and account for transactions associated

with the use of energy storage assets in public utility operations. Specifically, the Final Rule adds new electric plant and O&M expense accounts to report the installed cost and operation and maintenance cost of energy storage assets. In addition, the rule also amends the Form Nos. 1, 1-F and 3-Q to include the new accounts and amended schedules to report statistical and operational information on energy storage operations. These reforms accommodate the increasing availability of these new storage resources for use in public utility operations and help ensure that the activities and costs of energy storage operations are sufficiently transparent to inform affected stakeholders and facilitate adequate oversight by state and federal regulators.

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