

150 FERC ¶ 61,145
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
Norman C. Bay, and Colette D. Honorable.

Powerex Corp.

Docket No. ER15-755-000

ORDER GRANTING MARKET-BASED RATE AUTHORITY FOR SALES OF
OPERATING RESERVES

(Issued February 27, 2015)

1. In this order, we grant Powerex Corp. (Powerex) authority to make sales of Operating Reserve-Spinning and Operating Reserve-Supplemental at market-based rates to NorthWestern Energy (NorthWestern), effective March 1, 2015.

I. Background

2. On December 30, 2014, pursuant to section 205 of the Federal Power Act (FPA)¹ and the requirements of Order No. 784,² Powerex filed an application requesting authority to make market-based rate sales of Operating Reserve-Spinning and Operating Reserve-Supplemental to NorthWestern. Powerex is currently authorized to sell energy, capacity and certain ancillary services at market-based rates in the Northwest region, including the NorthWestern balancing authority area. Powerex explains that it was selected as a successful bidder in NorthWestern's Request for Proposals (RFP) for the provision of Operating Reserve-Spinning and/or Operating Reserve-Supplemental services, which are required under NorthWestern's Montana Open Access Transmission Tariff (OATT). Powerex expects to supply up to 18 megawatts (MW) of Operating Reserve-Spinning and/or Operating Reserve-Supplemental services to NorthWestern under terms of a one-year agreement beginning March 1, 2015.

¹ 16 U.S.C. § 824d (2012).

² *Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies*, Order No. 784, FERC Stats. & Regs. ¶ 31,349, at PP 13, 54-55, 57-58 (2013), *order on clarification*, Order No. 784-A, 146 FERC ¶ 61,114 (2014).

II. Notice of Filing and Responsive Pleading

3. Notice of Powerex's filing was published in the *Federal Register*, 80 Fed. Reg. 501 (2015), with interventions and protests due on or before January 20, 2015. NorthWestern filed a timely intervention and comments.

4. NorthWestern supports Powerex's request for authorization to make sales of operating reserves at market-based rates to NorthWestern. NorthWestern explains that it seeks to purchase these ancillary services from Powerex to satisfy its OATT requirements to offer operating reserves to its customers and as required by regional Reliability Standard BAL-002-WECC-2. NorthWestern states that while some of its customers have opted to self-supply operating reserve services, several customers have requested that NorthWestern provide these services. NorthWestern states that Schedules 5 and 6 of its OATT reflect the fact that NorthWestern does not have the ability to provide operating reserves, but that, upon request, NorthWestern must provide service from third-party providers, if available. NorthWestern additionally states that it has filed with the Commission several amended service agreements for Network Integration Transmission Service with customers who have requested operating reserve services, and that these agreements are contingent upon approval of the Powerex filing in this docket.

III. Discussion

A. Procedural Matters

5. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), NorthWestern's timely, unopposed motion to intervene serves to make it a party to this proceeding.

B. Substantive Matters

6. As discussed below, we will grant Powerex's request for authorization to make market-based rate sales of Operating Reserve-Spinning and Operating Reserve-Supplemental to NorthWestern in order to satisfy NorthWestern's obligation to provide ancillary services under its OATT.

1. Order No. 784 Demonstration

7. Under the Commission's *Avista* policy, the Commission restricted the sale of certain ancillary services at market-based rates where those sales were made to a public

utility that is purchasing ancillary services to satisfy its own OATT requirements.³ To overcome this restriction, a seller was required to provide a market power study demonstrating a lack of market power. However in Order No. 784, the Commission modified the *Avista* policy and stated that it would permit sellers passing existing market power screens to sell Operating Reserve-Spinning and Operating Reserve-Supplemental 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 the seller makes a filing demonstrating that 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.⁴ In Order No. 784-A, the Commission stated that its intent is to allow potential sellers to use the existing market power screens applicable to sales of energy and capacity to also demonstrate a lack of market power for sales of operating reserves, preferably without significant modification to those screens. Those screens incorporate a default geographic market that reflects imports from first-tier balancing authority areas up to the study area's simultaneous transmission import limit under an assumption that first-tier resources face no significant barriers to competing with resources in the home balancing authority area. For this to be true with respect to operating reserves, transmission scheduling practices must support the ability of a first-tier resource to respond to dispatch needs in a neighboring balancing authority area in the time frame required by the operating reserve service at issue.⁵

8. In Order No. 784, the Commission provided guidance on the types of region-specific practices that would support the delivery of operating reserves by stating that, while 15-minute scheduling might be sufficient for Operating Reserve-Supplemental, it may not be sufficient for Operating Reserve-Spinning, which requires designated resources to be available almost immediately.⁶ The Commission also observed that certain regions, including the Western Electricity Coordinating Council (WECC), may have already developed within-hour capacity tagging and scheduling practices intended to support the use of operating reserves across multiple balancing authority areas. In Order No. 784-A, the Commission further clarified that for Operating Reserve-Spinning, an applicant would need to show how the scheduling practices in the applicable region permit an “immediate” change in output in response to a contingency in the home

³ See *Avista Corp.*, 87 FERC ¶ 61,223 (*Avista*), order on reh'g, 89 FERC ¶ 61,136 (1999).

⁴ Order No. 784, FERC Stats. & Regs. ¶ 31,349 at PP 13, 54, 57.

⁵ Order No. 784-A, 146 FERC ¶ 61,114 at P 14.

⁶ Order No. 784, FERC Stats. & Regs. ¶ 31,349 at P 58.

balancing authority area. The Commission further stated that, for Operating Reserve-Supplemental, the applicant would need to show how the scheduling practices in the applicable region permit a unit in one balancing authority area to respond within a “short period of time” to contingencies in the home balancing authority area.⁷

9. Powerex explains that it will initially supply reserve capacity and energy from generation resources located in its affiliate British Columbia Hydro and Power Authority’s (BC Hydro) balancing authority area (the Source balancing authority area).⁸ Powerex states that it will use existing regional scheduling protocols to effect delivery of Operating Reserve-Spinning and Operating Reserve-Supplemental from BC Hydro across Bonneville Power Administration’s (BPA) transmission facilities to the interface between BPA and NorthWestern using Firm Transmission Service. Specifically, Powerex explains that the WECC Capacity Tag Functionality INT-009-WECC-CRT-2 and BPA’s “On Demand” scheduling protocols, in combination with BC Hydro’s capacity e-Tagging protocols, facilitate the supply of Operating Reserve-Spinning and Operating Reserve-Supplemental services at any time during an operating hour.

10. Powerex states that it will be able to meet its contractual obligations to NorthWestern by ensuring that the Source balancing authority area carries additional capacity available to meet a request for energy under Operating Reserve-Spinning immediately or, in the case of Operating Reserve-Supplemental, within 10 minutes or less.

11. Powerex contends that the Commission’s authorization in this docket will supply it with the authority to make such sales to NorthWestern without any changes to Powerex’s existing market-based rate tariff. However, in the event that the Commission deems it necessary, Powerex has submitted a proposed revised market-based rate tariff that includes language that allows Powerex to make such sales to NorthWestern.

12. We find that Powerex has made the requisite demonstration under Order No. 784 that the scheduling practices in the WECC, BPA and BC Hydro balancing authority areas support the delivery of operating reserves to NorthWestern. The specific provisions of the WECC Capacity Tag Functionality standard upon which Powerex will rely demonstrates that operating reserves can be delivered from one balancing authority area to another. Under this WECC standard, an entity that has reserved transmission capacity

⁷ Order No. 784-A, 146 FERC ¶ 61,114 at P 15.

⁸ Powerex explains that it also is permitted under its agreement with NorthWestern to use resources located within a balancing authority area in the Mid-C area to satisfy its obligations to NorthWestern, using the same scheduling protocols described above.

for this purpose can establish a capacity e-Tag for the amount of operating reserves that it is supplying up to the full transmission reservation, and can vary the “market level profile,” i.e., the energy dispatched through the e-Tag, to any value between zero and the maximum level defined by the transmission reservation. Moreover, when a contingency occurs and causes operating reserves to respond, either immediately in the case of spinning, or within 10 minutes in the case of supplemental, the WECC standard permits the e-Tag “market level profile” to be adjusted anytime within the hour up to 10 minutes after such response occurs. This demonstrates that entities in one balancing authority area can permit their resources to respond to contingencies in neighboring balancing authority areas within the strict time periods required for spinning and supplemental reserves without facing penalties in their home balancing authority area.

13. Furthermore, Powerex explains that it has used the WECC, BPA, and BC Hydro protocols for years, as described above (in current and previous versions), to supply spinning and supplemental reserves from the BC Hydro balancing authority area across BPA’s balancing authority area for delivery to the California Independent System Operator Corp. (CAISO).⁹ We find that the ability to make these sales to a day-two market such as CAISO demonstrates that these protocols and scheduling practices support the delivery of operating reserves (both spinning and supplemental) from one balancing authority area to another within the time periods specified by Order No. 784.

14. Accordingly, no adjustment to the default geographic market that incorporates imports from first-tier balancing authority areas would be necessary to apply the existing market power screens to sales of operating reserves. As a result, Powerex can rely on the market power analysis it submitted for sales of energy and capacity in the NorthWestern balancing authority area in its most recent updated market power filing to demonstrate that it lacks market power for sales of operating reserves in this market.¹⁰ Therefore, we grant Powerex’s request for authorization to make market-based rate sales of Operating Reserve-Spinning and Operating Reserve-Supplemental to NorthWestern.¹¹

⁹ Sales of operating reserves to CAISO are not subject to the *Avista* restrictions because the Commission has approved market-based rate pricing for those ancillary services in CAISO. See *AES Redondo Beach, L.L.C.*, 85 FERC ¶ 61,123 (1998).

¹⁰ See *Powerex Corp.*, Docket No. ER10-3297-000 (Aug. 29, 2014) (delegated letter order).

¹¹ We note that Powerex must timely report to the Commission any change in status, including any changes in scheduling practices, that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate*

2. Powerex's Amended Market-Based Rate Tariff

15. Powerex's current market-based rate tariff states that "sales of Operating Reserve-Spinning and Operating Reserve-Supplemental will not include sales to a public utility that is purchasing ancillary services to satisfy its own open access transmission tariff requirements to offer ancillary services to its own customers except where the Commission has granted authorization." While Powerex believes that the Commission's authorization in this docket would not require a change in the tariff, Powerex offers a revised tariff that includes express authorization to make market-based rate sales of operating reserve services to NorthWestern. We accept this proposed new tariff language but direct Powerex to submit a compliance filing within 30 days of the date of this order that moves Powerex's proposed new language to paragraph 6 of its tariff under the heading: "Limitations and Exemptions Regarding Market-Based Rate Authority" and includes a citation to this order.

The Commission orders:

(A) Powerex is hereby granted authority to make sales of Operating Reserve-Spinning and Operating Reserve-Supplemental at market-based rates to NorthWestern in order to satisfy NorthWestern's obligation to provide ancillary services under its OATT, as discussed in the body of this order.

(B) Powerex's amended market-based rate tariff is hereby accepted for filing, effective March 1, 2015, subject to a compliance filing to be submitted within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.