

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Third-Party Provision of Primary Frequency Response Service)))	Docket No. RM15-2-000
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COMMENTS OF THE ELECTRIC POWER SUPPLY ASSOCIATION

The Electric Power Supply Association (“EPSA”)¹ respectfully submits these comments in response to the Federal Energy Regulatory Commission (“FERC” or “Commission”) Notice of Proposed Rulemaking (“NOPR”) issued February 19, 2015.² The NOPR continues the policy reforms that began with Order No. 784 where the Commission revised its policy regarding the sale of ancillary services at market-based rates to public utility transmission providers. In this proceeding, the Commission is specifically proposing to amend its regulations to revise Subpart H to Part 35 of Title 18 of Federal Regulations governing market-based rates for public utilities pursuant to the Federal Power Act (“FPA”).³ The proposed revision would require sufficient compensation for primary frequency response which is part of a vital service that ensures reliability. EPSA agrees that primary frequency response and other important ancillary services in organized and non-organized markets need clear regulation from

¹ EPSA is the national trade association representing leading competitive power suppliers, including generators and marketers. Competitive suppliers, which collectively account for 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. The comments contained in this filing represent the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.

² *Notice of Proposed Rulemaking, Third-Party Provision of Primary Frequency Response Services*, Docket No. AD15-2-000 (issued Feb. 19, 2015).

³ 16 U.S.C. 824d, 824e (2012).

the Commission and in turn clear rules and protocols from individual independent system operators (“ISOs”)/regional transmission organizations (“RTOs”) and non-ISO/non-RTO transmission providers under the Commission’s oversight.

I. EXECUTIVE SUMMARY

EPSA supported the Commission’s examination of its policies with respect to reactive supply, frequency response and regulation, and compensation for the sale of these services, explored at the April 14, 2014 workshop,⁴ and thereby supports this effort to ensure market-based compensation for the provision of primary frequency response. EPSA strongly supports competitive markets and the benefits they bring to electricity consumers, for which market-based rates are a hallmark. Competitive suppliers make investment decisions both to retain and maintain existing resources and to develop new resources in significant part based on the long term total cumulative revenue adequacy from energy, capacity and ancillary services markets. However, as explained in several recent proceedings,⁵ there is broad concern that current and forward wholesale power market price signals do not fully reflect market fundamentals. With ancillary services in particular, compensation for these services in the non-organized markets has been inconsistent to non-existent and, when available, is rarely comparable for all suppliers. EPSA is concerned that overall price signals, including

⁴ *Supplemental Notice of Workshop*, Third-Party Provision of Reactive Supply and Voltage Control and Regulation and Frequency Response Services, Docket No. AD14-7-000 (issued Apr. 14, 2014).

⁵ Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators, Docket No. AD13-7-000; Winter 2013-2014 Operations and Market Performance in Regional Transmission Organizations and Independent System Operators, Docket No. AD14-8-000; and, Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators, Docket No. AD14-14-000.

those for the provision of ancillary services, fail to give investors a fair opportunity to earn revenues sufficient to recover fixed and variable costs plus a reasonable return on invested capital, as required by the Federal Power Act (“FPA”)⁶ and the U.S. Constitution,⁷ due to flawed market rules and policies. Therefore, EPSA strongly supports this step by the Commission to ensure that primary frequency response can be compensated through market-based rates. In an effort to ensure that the step has a material impact on reliability, EPSA encourages that the use of and compensation for the service be monitored by the Commission once rules pursuant to this proceeding are implemented.

II. COMMENTS

Frequency response is a regional ancillary service that provides benefits to Balancing Authorities (“BAs”) and, in turn, their respective interconnections. EPSA agrees with the Commission’s NOPR conclusions that sales of primary frequency response service at market-based rates should be authorized for entities granted market-based rate authority for sales of energy and capacity. To that end, EPSA supports such a service being distinguished pursuant to the Commission’s regulations so that the agency can ensure non-discriminatory and fair treatment of all primary frequency response resources as a service, including provision of an unbundled payment for that service.

⁶ 16 U.S.C. §§ 791 – 828c (2012).

⁷ See, e.g., *Bluefield Waterworks & Imp. Co. v. Public Serv. Comm’n of W. Va.*, 262 U.S. 679, 690 (1923); *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 602 (1944).

Traditional generation resources with operational flexibility are increasingly required as the primary support of system operations due to the changing generation resource mix.⁸ Continued investments will be required to support changing market needs, in both energy and ancillary service markets. Accommodating these changing market needs requires specific definitions for required products and services so that the markets can properly value and compensate for such services and associated investments. However, as EPSA noted in its comments following the April 2014 Workshop, Order No. 794 does not address associated compensation for the needed frequency response services, as was recognized by the Commission when it opened that proceeding (Docket No. AD13-7-000).⁹ The instant NOPR, by establishing primary frequency response OATT Schedule 3 service, will allow for the service to be compensated as it is valued by transmission providers acting as Balancing Authorities.

The provision of frequency response, an essential electric reliability service, has traditionally been met through a variety of mechanisms utilized and developed by transmission operators. Recent regulation under Section 215 of the FPA,¹⁰ the provisions of Order No. 794¹¹ approving NERC Standard BAL-003-1, and what is herein proposed in the NOPR will help ensure reliability by BAs that have the responsibility to maintain a frequency response that equals or exceeds its Frequency Response

⁸ Traditional generating resources are more likely to have governors that can be used to provide primary frequency response.

⁹ See Comments of the Electric Power Supply Association, Docket No. AD14-7-000 (filed Jun. 9, 2014).

¹⁰ 16 U.S.C. § 824o (2012).

¹¹ *Frequency Response and Frequency Response Bias Setting Reliability Standard*, Order No. 794, 146 FERC ¶ 61,024 (2014).

Obligation.¹² That responsibility will require BAs to maintain protocols and rules that specify frequency response levels and parameters for ensuring reliability. Therefore, it is necessary and appropriate for generators to be compensated adequately for providing this service to BAs.

While EPSA supports the NOPR and the provision of primary frequency response, the Commission suggestion regarding how defines that as a reserve product raises questions. In NOPR footnote 1 the Commission states, “As envisioned in this NOPR, primary frequency response service would be a “reserve product that involves dedicating capacity on a generator or other resource for autonomous, automatic, and rapid action to change its output (within seconds) to rapidly dampen large changes in frequency.”” EPSA would note that all operating synchronous generators, even those operating at their maximum output, provide primary inertial frequency response naturally as their kinetic energy is reduced by the sudden loss of generation. This released kinetic energy helps arrest the system frequency decline. All operating synchronous generators will provide primary inertial response automatically regardless of their operating output; therefore, generating capacity for the inertial component of primary frequency response need not be dedicated or set aside as capacity. In fact different generation types provide different inertia. Because primary frequency is largely automatic, can it be valued as a measurable service? Based on this uncertainty, EPSA recommends that the Commission survey BAs regarding the establishment and use of

¹² NERC Standard BAL-003-1, R1, *available at* <http://www.nerc.com/files/BAL-003-1.pdf>, effective April 1, 2016, requires a BA’s Frequency Response Measure to be equal to or more negative than its Frequency Response Obligation, with both expressed in MW/0.1 Hz.

primary frequency response service following the implementation of the final rule in this proceeding.

III. CONCLUSION

WHEREFORE, EPSA respectfully supports the Commission's proposed reforms in the NOPR as discussed in these comments for primary frequency response ancillary services essential for reliability. Such action should result in prices that efficiently signal the appropriate investment necessary to ensure continued reliability of the electric system. The Commission should also consider measuring how the service is being used and relied upon pursuant to the issuance of a final rule on this issue.

Respectfully submitted,



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