

(“WPTF”)⁵ (collectively, “Competitive Suppliers”) submit these comments in response to the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Notice of Proposed Rulemaking (“NOPR”) on *Essential Reliability Services and the Evolving Bulk-Power System – Primary Frequency Response* issued on November 17, 2016.⁶ The NOPR follows the Primary Frequency Response Notice of Inquiry (“NOI”), which the Commission issued in early 2016,⁷ and on which EPSA provided comments.⁸ In the NOI, the Commission sought comments on the need for reform of Commission rules and regulations regarding the provision and compensation of primary frequency response.

In the instant NOPR the Commission proposes to revise its regulations to require all newly interconnecting large and small generating facilities, both synchronous and non-synchronous, to install and enable primary frequency response capability as a condition of interconnection. The NOPR requirements will be implemented by revising the *pro forma* Large Generator Interconnection Agreement (“LGIA”) and the *pro forma* Small Generator Interconnection Agreement (“SGIA”). The proposed changes are designed to address the increasing impact of the changing generation resource mix and to ensure that all new generators have comparable requirements for the provision of primary frequency response. The Commission also seeks comment on whether its

states and the District of Columbia. The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue. For more information on P3, visit www.p3powergroup.com.

⁵ WPTF is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports development of competitive markets throughout the West and the development of uniform rules to facilitate transactions among market participants.

⁶ *Essential Reliability Services and the Evolving Bulk-Power System—Primary Frequency Response*, 157 FERC ¶ 61,122 (2016) (“NOPR”).

⁷ *Essential Reliability Services and the Evolving Bulk-Power System—Primary Frequency Response*, Notice of Inquiry, 154 FERC ¶ 61, 117 (2016) (“NOI”).

⁸ EPSA Comments:

https://www.epsa.org/forms/uploadFiles/385380000011.filename.ERS_PrimFreq_NOI_04252016_FINAL.pdf

proposals in this NOPR are sufficient at this time to ensure adequate levels of primary frequency response, or whether additional reforms are needed. Believing that compensation options are available and that compensation mechanisms have not previously been included in the interconnection agreement, the Commission did not provide any specific options for compensation in the NOPR. Competitive Suppliers support the NOPR requirements for new generation, and urge that any consideration of additional requirements for existing generation be subject to rigorous cost-benefit analysis and stakeholder comment. More broadly, Competitive Suppliers beseech the Commission to undertake a comprehensive examination of the compensation for primary frequency response and *all* “essential reliability services” which are provided in order to ensure the reliability of the grid, as discussed below.

I. COMMENTS

A. Compensation and Market Considerations

Competitive Suppliers appreciate the Commission’s measured approach by issuing the NOI prior to proposing specific reforms to its rules and regulations regarding primary frequency response. Competitive Suppliers have always stressed from both resource adequacy and operational perspectives that reliability is best ensured by having ample supplies of affordable and environmentally responsible electricity available to serve the grid. This requires generation from a network of plants operating simultaneously with base load, mid-merit and peaking capabilities utilizing a range of fuels and technologies to meet electricity demand, which fluctuates seasonally, throughout the day and throughout the hour. As Competitive Suppliers strongly

advocate and the Commission has acknowledged, the best approaches to procure what is needed for the grid are market-based mechanisms that, to the maximum extent possible, are technology and fuel neutral. The pathway to the most cost effective and equitable solution is to allow existing resources to compete with newer technologies on a level playing field. In some instances, narrowly defined or limited products or services may warrant cost-based compensation⁹ should the development of a market-based approach be prohibitive. In either case, Competitive Suppliers believe that it was important and commendable that, during the NOI phase, the Commission addressed compensation for primary frequency response in light of a changing resource mix.

As Competitive Suppliers stated in response to the NOI, in well-functioning wholesale markets primary frequency response should be a capability-based service with defined attributes to attract those resources which can provide the service most competitively. Competitive Suppliers explained that, though primary frequency response and inertia represent very specific services offered in extremely short durations, generators should be compensated for their provision. Providing these services, which are without question essential for reliability, require specific recognition and a sufficient compensation mechanism. Competitive Suppliers had hoped the Commission's NOI consideration of primary frequency response constituted a comprehensive and extensive examination of adequate compensation for *all* such essential reliability services. However, the NOPR asserts that because interconnection agreement tariff requirements have not been compensated in the past, the Commission does not propose any requirement that interconnection customers be compensated for primary frequency

⁹ *American Elec. Power Serv. Corp.*, Opinion No. 440, 88 FERC ¶ 61,141 (1999), *on reh'g*, 92 FERC ¶ 61,001 (2000). (For background discussion, see PJM Compliance Filing Regarding Reactive Power Capability at 1-5, Docket Nos. ER15-696 and EL15-15, filed December 22, 2014).

response. Rather, interconnecting generators are given the option of individually pursuing compensation under Section 205 of the Federal Power Act (“FPA”).¹⁰

Competitive Suppliers still believe that generators’ provision of the capability – and the costs associated with that capability – should be compensated. Much like capacity or operating reserves, the value of these services is clearly demonstrated when the system must respond to an unexpected frequency decline.

EPSA still believes there should be recognition of provision of the service and related compensation, and therefore urges the Commission to address compensation in a final rule or additional NOPR. Additionally, while primary frequency response is addressed in the NOPR, inertia and frequency response that occurs after primary frequency response have not been addressed. All resources that provide essential reliability services such as primary frequency response *and* inertia should be explicitly compensated rather than mandating generators provide them without distinct and additional compensation. Simply, Competitive Suppliers believe the Commission should reconsider its position that transmission providers can dictate primary frequency response requirements as a prerequisite for interconnection without any need to compensate for the provision of that service.

B. New Generation and Revising the LGIA and SGIA

The NOPR proposes that all public utility transmission providers adopt the provisions in the instant proceeding to revise their *pro forma* LGIA and *pro forma* SGIA to require all new generating facilities to install, maintain, and operate a functioning governor or equivalent controls, ensure adequate primary frequency response capability. Competitive Suppliers support this change as it recognizes the changing resource mix,

¹⁰ NOPR at P 55.

ensures comparable and consistent treatment for all types of generating facilities, and supports NERC Reliability Standards and guidelines that uphold adequate interconnection frequency response.

C. Existing Generation

In addition, the Commission seeks comment regarding whether the LGIA and SGIA changes proposed in this NOPR for existing generation are sufficient to ensure adequate levels of primary frequency response, or whether additional reforms are needed. Specifically:

In particular, the Commission seeks comment on whether additional primary frequency response performance or capability requirements for existing resources are needed, and if so, whether the Commission should impose those requirements by: (1) directing the development or modification of a reliability standard pursuant to section 215(d)(5) of the FPA; or (2) acting pursuant to section 206 of the FPA to require changes to the *pro forma* OATT.¹¹

Much as Competitive Suppliers asserted in their NOI comments, NERC's assessment of overall frequency response and primary frequency response is ongoing. Moreover, that assessment differs among regions within specific interconnects. Importantly, there are ongoing changes occurring for both NERC reliability rules and ISO/RTO market rules. Competitive Suppliers thereby urge that the Commission allow time for such changes and assessments to occur before considering further rule changes for all existing generation.

Due to the Commission proposed rule in the instant proceeding, new generation will have the regulatory certainty of setting their facilities up in accordance with the transmission providers' needs for frequency response from the time of settling on the interconnection agreement. Existing generators on the other hand would incur a

¹¹ NOPR at P 57.

significant cost of making changes to existing facilities. There is no specific evidence that all generators in all regions would need to meet the requirements of a national reliability standard for primary frequency response. Therefore, Competitive Suppliers do not believe that the Commission should mandate primary frequency response requirements for existing resources. The cost of retrofitting existing units' equipment would be steep and not justified without supporting evidence that such expense would have an equal or greater corresponding reliability benefit. Moreover, such a requirement for all existing generation would not be practical given the significant differences among resource types in each region and the differing determinations of the most appropriate settings for governors in NERC standards.

NERC itself has asserted¹² the degree of need for meeting primary frequency differs from interconnection to interconnection; similarly, different Balancing Authorities ("BAs") may need flexibility across resources rather than imposing uniform settings on all of its generation resources. Further, as a practical matter, maintaining adequate frequency response does not require every resource to provide it. Sufficient access to frequency response can be met by having sufficient capability within a subset of resources. Importantly, Competitive Suppliers recognize that mandating equipment with uniform settings from all generating resources would limit generators' ability to distinguish the specific reliability qualities of one generator versus another, which is necessary to identify needed compensation for a transmission provider. Competitive Suppliers believe the key is to incent provision of the service to the desired level, which is best done through clear, separate compensation for this capability.

¹² NOI at P 31.

II. CONCLUSION

WHEREFORE, Competitive Suppliers support the Commission's NOPR with respect to requirements for new generators and tying any consideration of additional or new requirements for existing generation to a rigorous cost-benefit analysis. In addition, Competitive Suppliers believe the Commission should consider reforming its rules and regulations regarding "essential reliability services," and further focus on the provision and compensation of primary frequency response in this rulemaking. In well-functioning wholesale markets primary frequency response should be a capability-based service with defined attributes to attract those resources which can provide the service most competitively pursuant to an adequate compensation mechanism, per the discussion above. Competitive Suppliers would urge the Commission that consideration of compensation for grid reliability services should be a high priority and that there is a need for a comprehensive examination of adequate compensation for *all* such essential reliability services.

Respectfully Submitted,

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