

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

Mandatory Reliability Standards for the Bulk) Docket Nos. RM06-16-010
Power System) RM06-16-011

COMMENTS OF THE ELECTRIC POWER SUPPLY ASSOCIATION

The Electric Power Supply Association¹ (EPSA) submits these comments in response to the Federal Energy Regulatory Commission's (FERC or Commission) September 24, 2010 Notice establishing a date for comments in response to the September 23, 2010 technical conference in the above captioned proceeding.² The conference, "Technical Issues Relating to Frequency Response Requirements for the Eastern, Western and Texas Interconnections," had two panels, the first entitled "Fundamentals" and the second, "Frequency Response Resolutions."

EPSA appreciates the Commission's reliance on the September 23 technical conference and September 24 notice requesting comments to develop a record on issues relating to frequency response requirements for the Eastern, Western and Texas interconnections to assist the ERO's further consideration of

¹ EPSA is the national trade association representing competitive power suppliers, including generators and marketers. These suppliers, who 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 Allowing Post-Technical Conference Comments*, Docket Nos. RM06-16-010 and RM06-16-011 (September 24, 2010).

related Reliability Standard BAL-003-0. Competitive suppliers are significant providers of frequency response in each of the three interconnections, and therefore have considerable interest in frequency response. Each of EPSA's 21 member companies operates in four or more NERC regions and collectively represent over 700 separate entities in the NERC registry. EPSA and its members therefore have a significant interest in grid reliability and in the development of enforceable standards, including those that address frequency response to ensure reliability.

EPSA supports the Commission's deliberate approach expressed in its May 13 Order³ that delayed ruling on rehearing requests on Reliability Standard BAL-003-0 associated with the ERO response to the Commission's directives in Order No. 693.⁴ Due to the complexity of frequency response issues the conference focused only on engineering parameters associated with frequency response, opting not to explore the full range of issues that could have been included. Other issues associated with frequency response that need to be addressed so that a complete record can be established include the cost and benefit impacts on generation equipment caused by governor settings, and consideration of market-based frequency response solutions.

I. Comments

The areas explored at the conference provided supporting information on several engineering parameters that can be used to write a frequency response standard that will provide a better basis for establishing future parameters for

³ North American Electric Reliability Corp., 130 FERC ¶ 61,218 (2010).

⁴ Mandatory Reliability Standards for the Bulk-Power System, Order No. 693, FERC Stats. & Regs. ¶ 31,242, order on reh'g, Order No. 693-A, 120 FERC ¶ 61,053 (2007).

frequency excursion recovery in the three interconnections. The conference shed light on the importance of location and speed response characteristics of different units; the importance of how reserves are allocated and their influence on Nadir Frequency; and how lower governor dead-band settings can result in less variation in generator output after a frequency event.

The engineering data provided at the conference regarding the experience with digital and electronic governors in ERCOT will prove useful to regions with comparable system configurations. However, the conference did not address, much less answer, what the impact and cost would be on generation equipment if the ERCOT experience were to be replicated on a larger scale in other regions. Thus the Commission's record on all frequency response issues is incomplete. For instance, equipment and equipment manufacturers' warranties were not discussed at the conference. If widespread governor changes result in more wear and tear on generation equipment, the costs will likely be passed on to consumers and the reliability benefit may not exceed those potential costs. By the same token, the information presented during the conference that a tighter governor dead-band prevents significant output variation after a frequency response experience suggests that tighter governor dead-band settings may indeed cause less wear and tear resulting in a decrease in generator equipment costs. This important concern still needs to be addressed so that any efforts made to improve frequency response are fully reflected in the record, thereby acknowledging the range of costs and benefits associated with such changes.

A sufficient record on frequency response costs and benefits will assist the Commission's consideration of EPSA's second concern that the Technical Conference did not address: the technical aspects of utilizing market solutions to improve frequency response. The need to consider market solutions in addition to engineering parameters has been a concern raised during the consideration of BAL-003 by market participants including EPSA's members, as well as by organizations with engineering expertise such as NERC. Importantly, NERC suggested in its comments that the Commission and NERC could best work collaboratively to achieve the desired frequency response results, a suggestion that was later supported by the extensive discussion at the July 6 technical conference on the development of reliability standards.⁵ NERC stated in its April 18 rehearing request:

Rather, solving the problem of frequency response using a market solution with joint actions by both NERC and the Commission is superior to attempting to solve the problem with Reliability Standards exclusively.⁶

This approach was further endorsed by Energy Mark President Howard Illian in his affidavit that accompanied the April NERC pleading in which he addressed how NERC could potentially create standards that do not provide the proper incentives for reliable service. Moreover, Illian asserts that system operators do not currently receive the proper price signals to drive the equitable

⁵ *Commissioner-Led Technical Conference on Reliability Standards Development and NERC and Regional Entity Enforcement*, Docket No. AD10-14-000 (July 6, 2010).

⁶ See Request of the North American Electric Reliability Corporation for Clarification and Rehearing of the Order Setting Deadline for Compliance, Docket No. RM06-16-010 (April 19, 2010), p. 11.

allocation of reserves needed to ensure reliability.⁷ At a minimum potential consideration of Balancing Authorities' higher spinning reserve obligations might indeed be another cost effective solution that should be part of the Commission's consideration of market solutions for achieving better frequency response.

Without a proper vetting of the potential of market solution, some of the engineering parameters discussed at the conference could be ineffective or could even create additional problems for the system. For example, at the conference ERCOT was held up as a successful model for dealing with frequency response. In part this success is because ERCOT recognizes frequency response as an "instructed" deviation from the dispatched base point. Other markets recognize it as an "un-instructed" deviation and penalize generators for providing this reliability service. Therefore the ERCOT frequency response parameters are working with market design features not used elsewhere. So while the ERCOT experience informs the frequency response debate, full consideration of both the parameters and the market features need to be considered to fully appreciate the ERCOT experience.

The technical conference did not allow for consideration of market solutions in conjunction with, or as substitutes for, the strictly technical approach discussed at the conference. Consequently, numerous issues associated with frequency response remain on the table for ongoing discussion and consideration before a reliability standard can be finalized as market forces play an important role in the ability of frequency response to ensure reliability in the

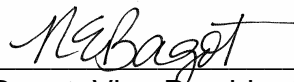
⁷ See Affidavit of Howard F. Illian Regarding March 18, 2010 Order Setting Deadline for Compliance with BAL-003-0 Modifications, Docket No. RM06-16-010 (April 19, 2010), p. 13-18.

most efficient manner. Having frequency response rules that clearly define measures for the service will in turn allow markets to be designed in a manner that properly incent and compensate entities that provide the service. Such measures and rules have the best chance at ensuring adequate frequency response and reliability.

II. CONCLUSION

Wherefore, EPSA respectfully requests that the Commission issue a supplemental notice asking for comment on the cost versus benefit of frequency response for generating equipment, as well as market solutions and mechanisms that have not yet been considered in the frequency response discussion. In addition, the Commission should hold in abeyance any decision on NERC's compliance filing establishing a specific reliability standard until these issues have been properly considered.

Respectfully Submitted,



Nancy Bagot, Vice President of Regulatory Affairs
Jack Cashin, Director of Regulatory Affairs
Electric Power Supply Association
1401 New York Avenue, NW, 11th Floor
Washington, DC 2000
(202) 628-8200
NancyB@epsa.org

October 14, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the comments via email upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. October 14, 2010.



Nancy Bagot, VP of Regulatory Affairs