

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

**Integration of Variable
Energy Resources**

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Docket No. RM10-11-000

COMMENTS OF THE NATURAL GAS SUPPLY ASSOCIATION

The Natural Gas Supply Association (“NGSA”) hereby submits comments in response to the Federal Energy Regulatory Commission’s (“FERC” or “the Commission”) Notice of Proposed Rulemaking regarding the integration of Variable Energy Resources (VERS).¹

NGSA is a trade association which represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers. Members of NGSA supply natural gas to power gas-fired generators and also are large consumers of power. For these reasons, the reforms proposed in this NOPR will have a direct impact on NGSA.

¹ *Integration of Variable Energy Resources*, Notice of Proposed Rulemaking, 133 FERC ¶ 61,149 (2010) (“NOPR”).

I. COMMUNICATIONS

Any communications with respect to this pleading and this proceeding should be addressed to:

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II. EXECUTIVE SUMMARY

Given that fuel neutrality is an essential regulatory component for the effective operation of energy markets, the Commission must ensure that no preference is provided to any fuel source over another. While the proposed reforms in the VERS NOPR are intended to remove entry barriers for variable generation resources, in doing so, it is imperative that associated costs are appropriately allocated to those who actually benefit from these new programs. Otherwise, the proposals disproportionately shift the costs to transmission customers who access conventional resources. Non-VERS customers should not subsidize costs associated with new regulatory requirements designed specifically to accommodate the special needs of intermittent resources. The end result is not merely the elimination of entry barriers, but a preference for variable energy resources.

III. COMMENTS

In this NOPR, the Commission proposes three reforms in order to remove barriers to the integration of variable energy resources, namely: (1) transmission providers must offer 15 minute intra-hourly scheduling; (2) interconnection customers with VERS generation must provide meteorological and operational data to transmission providers; and (3) transmission providers must offer a new generic ancillary service rate schedule. While these proposed reforms are intended to improve the ability of VERS to access existing power markets, each will require transmission providers to incur costs associated with their implementation.

Strict adherence to cost causation principals is central to ensuring that the proposals are limited to removing barriers and do not have the unintended consequence of subsidization and ultimately, departure from the central precept of fuel neutrality. Transmission customers who access other generation sources should not be forced to unfairly subsidize VERS, which can lead to market price distortions and business decisions that are uneconomic, inefficient, and inconsistent with a truly competitive market.

The three proposals contained in the NOPR either directly drive costs (intra-hour scheduling and provision and use of meteorological data) or directly address costs (creation of a generic ancillary rate schedule). While there may be benefits obtained from intra-hour scheduling in some circumstances, conventional generation resources

can efficiently and effectively operate on a longer scheduling basis.² Similarly, use of advanced meteorological data is not necessary for efficient and effective operation of conventional resources. The costs are primarily caused by integration of variable resources, and the Commission should follow its cost causation principals and allow these costs to be allocated to the appropriate resources without delay.

The final proposal in the NOPR directly addresses allocation of costs related to ancillary services through a generic rate schedule. Here, the Commission states that it “agrees that regulation reserve costs should be allocated to transmission customers consistent with cost causation principles.”³ In order to appropriately allocate more volumes associated with generator regulation services to VERS customers, as opposed to conventional generators, a transmission provider must first mitigate those costs by instituting intra-hourly scheduling and providing power production forecasting, then collecting actual data for one year to support and then demonstrating the need to allocate additional costs to variable energy resources.⁴

To ensure that the proposed generic rate schedule sends the right pricing signals, it must be priced in line with reasonable and prudent costs of these services and must reflect the cause of those costs. Delaying the allocation of costs based on cost causation

² For example, the Commission should consider the creation of a separate service and rate schedule for customers that elect to use 15-minute scheduling as opposed to charging the same fee to all customers on the system.

³ Paragraph 94 of NOPR.

⁴ “The Commission proposes that any such subsequent filing including different volumetric requirements for different subsets of transmission customers should be supported with actual data collected over a one year period subsequent to the implementation of intra-hourly scheduling and power production forecasting for VERS.” (NOPR, paragraph 107). During the extended implementation/data collection year, the transmission provider will be able to charge no more than its current Schedule 3 rate.

until providers have complied with the new rules for intra-hourly scheduling and power production forecasting for VERS and until they have collected one year of data will result in conventional generators unjustly and unreasonably being assessed a disproportionate level of costs associated with ancillary services.

Instead, the Commission should allow transmission providers an opportunity to allocate ancillary service costs, as soon as they are justifiably able to do so, in a manner that reflects cost causation. Specifically, the Commission should eliminate the threshold requirements that delay implementation of cost causation principles from the final rule, including the need to first comply with intra-hourly scheduling and power production forecasting for VERS. Also, the Commission should eliminate the requirement to collect data for support over a one-year period subsequent to such compliance.

V. CONCLUSION

As stated above, NGSAs believes that the Commission must strictly adhere to its cost causation principles in implements VERS reforms in order to maintain fuel neutrality and to not unjustifiably spread costs to other energy sources.

Respectfully Submitted,

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