

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

**Frequency Regulation Compensation in the)
Organized Wholesale Power Markets)**

**Docket Nos. RM11-7-000
AD10-11-000**

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 (“NOPR”) regarding compensation for frequency regulation in organized wholesale power markets.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 gas-fired power 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 Frequency Regulation Compensation in the Organized Wholesale Power Markets, Notice of Proposed Rulemaking, 134 FERC ¶ 61,124 (2011) (“NOPR”).

I. COMMUNICATIONS

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

Patricia W. Jagtiani
Senior Vice President
Natural Gas Supply Association
1620 Eye Street, NW
Washington, DC 20006
(202) 326-9300
pjagtiani@ngsa.org

II. EXECUTIVE SUMMARY

NGSA supports competitive markets that allow all energy resources and technologies to compete fairly. As such, while we are pleased that the Commission is considering steps to more fully recognize the market value of one ancillary service, we believe that all services which support the reliability of the grid, including frequency regulation services, should be adequately compensated for the value they provide. The Commission should not favor one technology over another. For that reason, we urge the Commission to undertake a more comprehensive review that examines compensation as well as the general market structure for all ancillary and balancing services.

Such a broad examination will benefit all market participants by taking a more holistic approach to assessing what will be required to support system reliability as renewable energy sources become a larger part of the energy mix and as older plants are retired. Moreover, properly valuing all products and services that support the

reliability of the grid, based on competitive market principles, allows for the optimal mix of services required to meet system needs on a least-cost basis.² Absent a broader examination, this newly proposed pricing structure for frequency regulation may favor certain technologies and products over others.

III. COMMENTS

On February 17, 2011, the Commission proposed revisions to its regulations to remedy undue discrimination in the procurement of frequency regulation service in organized electricity markets. Specifically, the NOPR proposes to create a uniform two-part rate for frequency regulation services that acknowledges the greater amount of accuracy that can be provided by faster-ramping resources. The two-part rate is composed of a capacity payment for the recovery of opportunity costs as well as a performance payment, that takes into consideration the resource's accuracy in providing ACE correction based on the total level of up and down movement made by the service provider in response to control signals. The performance payment is calculated based on the bid of the marginal regulating resource after all resource providers have bid and the RTO determines the least cost set of resources providing frequency regulation services.

² To undertake a broader examination, the Commission should grant the request made by the Electric Power Supply Association (EPSA) in the VERA (Variable Energy Resources) proceeding for a technical conference to further develop the record on market mechanisms and product development necessary across non-RTO and RTO regions to reliably integrate large scale amounts of VERA. NGSAs share EPSA's concern that the Commission may be focusing too narrowly on the regulation market and accordingly, may not sufficiently be focusing on the full range of products and services needed to ensure sufficient ramping capacity to reliably support VERA.

As the need for services that support grid operations continues to grow, valuing market responses from all services that increase reliability will be essential for ensuring an effective market design. However, regulatory policies that focus singly on special forms of compensation and incentives for some forms of ancillary and balancing services, but not others, are likely to result in distorted market signals and a mix of services and products that are sub-optimal for meeting system balancing requirements.

It is important to focus on more than the compensation for frequency regulation given that there will be greater reliance in the future on all forms of ancillary services to meet the needs of variable renewable generation.³ To adequately meet the future demand for ancillary services, sufficient compensation and adequate market price signals will be required and, unless all services that contribute to system reliability are properly valued, investment in these services could be frustrated. Competitive market pricing, including frequency regulation, can provide the proper signals to ensure adequate investments are made as the need for ancillary and balancing services increases.⁴ Also, market pricing gives system operators the ability to select the lowest cost options to reliably provide system support.

³ The FERC-commissioned study by Lawrence Berkeley National Laboratory emphasizes the importance of assuring adequate secondary frequency control reserves by stating, "The demands placed on slower forms of frequency control, called secondary frequency control reserves, will increase because of more frequent, faster, and/or longer ramps in net system load caused by variable renewable generation." Lawrence Berkeley National Laboratory, *Use of Frequency Response Metrics to Assess the Planning and Operating Requirements for Reliable Integration of Variable Renewable Generation*, Item 4 at Page XXV, (December 2010).

⁴ Also, adequate secondary frequency control reserves for regulation and load following limits the need for primary frequency control reserves so that frequency control is available at those times when

The Commission needs a more complete record that captures more than frequency regulation – one form of ancillary service – in order to be mindful of the impacts that this proposal may have on other electricity markets and services. As Commissioner Spitzer recognized in his dissent in this proceeding, feedback is needed from a broad spectrum of industry participants or the record on which to make the proposed changes to FERC’s regulations may be undermined. Other key questions and concerns that need to be more fully developed include:

- Is the pricing of balancing and ancillary services providing adequate compensation and incentives to ensure that the grid will be able to accommodate future requirements as older units are retired and VERs become a larger percentage of the overall energy mix?
- How can regulatory policies allow a more competitive market structure for ancillary and balancing services? Are there market-based approaches that can allow each region to readily select the most efficient, least-cost solutions for system balancing?
- What is the best means to recover the costs associated with ancillary and balancing services based on cost-causation principles?

To address these questions, among others, we ask the Commission to explore the reforms necessary to ensure that the appropriate competitive market rules are in place to meet future system balancing requirements.

their services are needed to respond quickly to declining frequency following sudden imbalances between load and generation.⁴ Because of this direct interrelationship between primary and secondary frequency control, compensation for frequency regulation cannot be considered in isolation.

V. CONCLUSION

While frequency regulation plays an important role in helping maintain system reliability, pricing policies pertaining to this small portion of ancillary services should not be considered without also considering other products and services that also play a very important role in supporting the grid. It would be premature to answer the questions or draw conclusions on the issues raised in this NOPR without the benefit of a more broadly-informed record.

Respectfully Submitted,

/s/ Patricia W. Jagtiani

Patricia W. Jagtiani
Senior Vice President
Natural Gas Supply Association
1620 Eye Street, NW Suite 700
Washington, DC 20006
pjagtiani@ngsa.org