

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

Third Party Provision of Ancillary Services;)	Docket Nos. RM11-24-000
Accounting and Financial Reporting for)	AD10-13-000
New Electric Storage Technologies)	

COMMENTS OF THE NATURAL GAS SUPPLY ASSOCIATION

The Natural Gas Supply Association (“NGSA”) hereby submits these comments on ways the Federal Energy Regulatory Commission (“Commission”) can facilitate the development of robust, competitive ancillary services 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. NGSA is actively involved in matters relating to the provision of ancillary services and filed comments on the notice of proposed rulemaking on Frequency Regulation²

¹ *Third Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies*, Notice of Inquiry, 135 FERC ¶ 61,240 (2011).

² *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, FERC Stats. & Regs. ¶ 36,672 (2011) (“Frequency Regulation NOPR”).

recommending that the Commission adopt a broader focus.³ As such, the issues addressed in the Notice of Inquiry (“NOI”) have a direct impact on NGSA and are of interest to the association.

I. COMMUNICATIONS

NGSA requests that the following person be placed on the official service list compiled by the Secretary of the Commission in this proceeding:

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II. EXECUTIVE SUMMARY

- NGSA supports competitive ancillary services markets in which all energy resources, technologies and fuel sources are allowed to compete fairly, information regarding ancillary services is transparent, and ancillary services are competitively procured and competitively priced based on transmission operators’ needs.
- The Commission can achieve the benefits of third party provision of ancillary services by requiring greater transparency of data regarding the provision of ancillary services and the operational needs of transmission system operators and by ensuring competitive bidding is open to all fuel sources and technologies.
- In those instances where the market is not yet competitive and cost-based regulation is retained for third party provision of ancillary services, NGSA

³ See “Comments of the Natural Gas Supply Association,” Docket No. RM11-7-000, *et al.* (filed May 2, 2011).

urges the Commission to adhere to its general cost causation principles and avoid any subsidies.

III. COMMENTS

On June 16, 2011, the Commission requested comments on (1) whether revising or replacing the existing restrictions on third party provision of ancillary services set forth in *Avista Corp.*⁴ – which prohibits third party market-based sales of ancillary services to transmission providers seeking to meet their ancillary service obligations under their open access tariffs absent a showing of a lack of market power – would facilitate the provision of ancillary services, and if so, how the Commission could ensure that rates remain just and reasonable and (2) whether the Commission should extend the goals of the Commission’s recently-issued Frequency Regulation NOPR to non-organized markets.⁵

NGSA is encouraged that the Commission is undertaking a more comprehensive review of the general market structure and compensation for all ancillary services. NGSA supports the Commission’s desire to facilitate the development of market-based approaches for the provision of ancillary services, where appropriate and, to that end, (1) encourages the Commission to foster the competitive pricing of ancillary services by making the operational needs of the system operator more transparent to ancillary

⁴ *Avista Corp.*, 87 FERC ¶ 61,223, order on reh’g., 89 FERC ¶ 61,136 (1999) (“*Avista*”).

⁵ The Commission also asked for comments on whether the Commission’s current accounting and reporting requirements regarding jurisdictional entities’ use of electric storage devices are adequate. NGSA has no position on this issue.

service providers and requiring competitive procurement to satisfy those operational needs, and (2) urges the Commission to adopt a position of fuel neutrality for the provision of ancillary services.

The NOI specifically asks whether stakeholders believe the *Avista* restriction should be modified or eliminated. While NGSAs are amenable to FERC reconsidering its *Avista* restriction, any effort to amend or eliminate this restriction must also adequately address concerns about market power and continue to protect customers.

In response to the Commission's inquiry in the NOI regarding whether the Commission should extend the principles established in the Frequency Regulation NOPR, including the uniform two-part rate for frequency regulation service, to non-organized markets, NGSAs oppose any such extension until sufficiently competitive procurement is implemented in these systems. Moreover, if the Commission determines that a competitive ancillary services market does not exist and continues cost-based ancillary services, NGSAs ask the Commission to avoid any subsidies or inappropriate cost allocation mechanisms and continue to adhere to its basic cost causation principles.

Although the creation of a competitive market for ancillary services may be more difficult to achieve in non-organized markets, (1) increased third-party participation, (2) improved transparency and (3) a commitment to fuel neutrality will help to facilitate competition in those markets.

(1) The Commission should implement policies that create more robust third party participation in the ancillary services markets.

Third party provision of ancillary services will lead to a net increase in the amount of ancillary service options available, which is likely to provide overall benefits to the system as these requirements increase over time. Second, ancillary services markets in non-organized market regions will become more competitive as a result of the participation of new entrants in addition to incumbent utilities. This competition will encourage and facilitate the efficient provision of services, ultimately providing economic benefit to consumers.

(2) Ancillary services in non-organized markets can be made more competitive by increasing market transparency.

The information on ancillary services provided in non-organized markets is opaque, both as to the ancillary services the transmission provider needs and ways that ancillary services providers, other than the incumbent utility, can meet those needs. In order to facilitate third party provision of ancillary services, the Commission should require the incumbent utility to make its ancillary service requirements transparent and well-known. Third party ancillary service providers need to know the “rules of the road” to be able to compete fairly and actively participate in the market. Moreover, the Commission should require additional data postings on the part of incumbent utilities, in order to support market power studies and to facilitate the Commission’s ability to protect market participants.

As information on ancillary services becomes more transparent, the Commission can more readily permit ancillary services to be subject to a competitive bidding process

in which rates reflect the value of the service provided and in which the rates can be found to be just and reasonable.⁶

(3) FERC should maintain a commitment to fuel neutrality as it considers changes to the market rules for ancillary services.

In instances where competitive bidding is implemented, transmission providers should be required to competitively acquire ancillary services from all sources and technologies in the balancing authority area, rather than assuming the transmission provider's own generation is the only source that can provide the service. In developing a more competitive approach to ancillary services, the Commission should adopt a principle of fuel neutrality consistent with the Commission's obligation to ensure non-discriminatory treatment of all ancillary service providers.

To ensure fuel neutrality, ancillary services should not be priced by individual resource or technology but rather, all resource types that are capable of meeting a specified system need should be able to compete to receive the market price. If transmission operators provide sufficient detail about ancillary services requirements and allow competitive bidding by all resources, (for example, all sources that can provide ten-minute ramping), ancillary service providers will be more likely to receive compensation that more properly reflects the value of the service provided.

Moreover, neither non-organized or organized markets outside of regulation service markets currently distinguish between compensation paid to ancillary service

⁶ The Commission recognizes in the NOI that competitive solicitations is a way of facilitating the provision of more ancillary services and can be a factor that contributes to just and reasonable rates. See NOI at P 21e.

providers providing little or no ramping capability and those providing significant ramping capability.⁷ This problem is likely to be mitigated as well by more detailed competitive bidding requirements.

NGSA respectfully requests that the Commission confirm that, despite the amount of attention devoted to electric storage technologies in the NOI, such technologies will not receive preferential treatment as providers of ancillary services because, in addition to electric storage, many other resources and technologies that provide ancillary services will be instrumental in providing these services.

IV. CONCLUSION

The Commission should promote competition in ancillary service markets and establish mechanisms to competitively price distinct ancillary services to assure additional value provided by any ancillary service providers can be efficiently priced without favoring any fuel source or providing any cost subsidies.

Respectfully submitted,

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⁷ Regulation service generally provides fine balancing of the system to manage area control error (and indirectly frequency) after the bulk of system balancing occurs in the real time system dispatch of flexible resources.