

Regulatory and Legal Issues on WSPP Reserves Schedule

**WSPP/WECC Reserves Workshop
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I. Background of Regulatory Framework

A. WECC BAL-STD-002-0 (Old Standard):

- **Minimum operating reserves defined as regulating reserves, contingency reserves, additional reserves for interruptible imports and additional reserve for on-demand obligations**

- **Reserves must equal greater of:**
 - **Loss of generating capacity due to forced outages of generation or transmission equipment (Single worst Contingency) or**
 - **Sum of 5% of load responsibility served by hydro and 7% of load responsibility served by thermal**

- **50% of Reserves must be spinning (fully deployable within 10 minutes)**

I. Background of Regulatory Framework

A. WECC BAL-STD-002-0 (Old Standard):

- WECC Interpretation of “load responsibility” allowed “purchasing entity to determine their level of acceptable deliverability risk and determine who has contingency reserve responsibility”**
- This interpretation, in effect, allowed for the shifting of reserve obligation between Selling BAs and Purchasing BAs based on transactions and raising concerns regarding use of WSPP Schedule C products (e.g., meaning of “with reserves”)**
- Submitted to NERC as a temporary standard and approved in March 2007 with requirement to submit permanent standard within one year of FERC order; submitted to FERC and accepted June 8, 2007**

I. Background of Regulatory Framework

B. BAL-STD-WECC-1 (New Standard):

- **Removed the concept of “load responsibility” and provided a new minimum reserve requirement for contingency reserves**
- **Contingency reserves must equal greater of:**
 - **An amount of reserve equal to the loss of the most severe single contingency; or**
 - **the sum of 3% of the load (generation minus station service minus net actual interchange) and three percent of net generation (generation minus station service)**
- **Clarified that each BA (or reserve sharing group) must meet its own reserve responsibility (no shifting of responsibility)**

I. Background of Regulatory Framework

B. BAL-STD-WECC-1 (New Standard):

- WECC posted the new draft standard on September 14, 2007 and the WECC Board approved it on April 16, 2008
- The standard was then sent to NERC and the comment period ended on May 20, 2008. The NERC Board of Trustees approved the standard on May 31, 2008. NERC plans to file the new standard with FERC during June.
- FERC is expected to rule during the Summer 2008 with an effective date of the first day the next quarter after approval (if approved in the Summer, this would be October 1, 2008)

I. Background of Regulatory Framework

C. OATT and FERC Guidance

- **Schedule 5 and 6 of OATT allow transmission customers to self-schedule reserves (including purchasing reserves from a third party) rather than take the reserves under the tariff**
- **However, in Order No. 890-A, FERC declined to require that a Transmission Provider make reserves available to loads outside of their control area. (Leaving seller from outside at mercy of TP at sink or non-existent market)**
- **In that order, FERC reaffirmed that the pro forma OATT specifically allowed a BA to contract with third parties to meet their reserve obligation**

I. Background of Regulatory Framework

C. OATT and FERC Guidance

- **Because of the change to the WECC standard and FERC's reaffirmation of the potential for balancing authorities to self-supply reserves and procure from third parties, WSPP has an opportunity to foster a liquid reserves market.**
- **Potential for use of current agreement (Schedule C) to provide these services.**
- **Because of different characteristics of energy and reserves, it may be most beneficial to develop a new reserves schedule to address bilateral reserves transactions**

II. Developing a Market for Ancillary Services (including Operating Reserves)

A. Regulatory Requirements for a Market-based Tariff

- FERC requires that jurisdictional utilities offering off-system ancillary service for sale do so under an approved tariff (whether market or cost-based)**
- Any market based tariff will require an identification of the types of ancillary services offered and a description of the products.**
- Market based ancillary services cannot be sold in conjunction with transmission service (ancillary services under an OATT must be cost-based)**

II. Developing a Market for Ancillary Services (including Operating Reserves)

A. Requirements for a Market-Based Tariff (including AS)

- **The *Ocean Vista* Case (1998) -- provided definition and guidance regarding the content of market power studies required to receive market based rate authority**
 - **Relevant product market**
 - **Relevant geographic market**
 - **Market shares for all suppliers of the relevant product in the relevant region**
 - **Examination of barriers to entry**

II. Developing a Market for Ancillary Services (including Operating Reserves)

A. Requirements for a Market-Based Tariff (including AS)

- The *Avista* Case (1999) – recognized that market studies may not be possible in all cases and allowed alternative method to gain market based rate authority, such as...**
- OASIS-like site to post offers and bids as well as information regarding acceptance and denial**
- Tri-annual filing requirement**

II. Developing a Market for Ancillary Services (including Operating Reserves)

A. Requirements for a Market-Based Tariff (including AS)

- **Order No. 697: FERC found that, due to Electronic Quarterly Report requirements, OASIS site and tri-annual filing no longer required (previously required under Avista)**
- **EQRs contain information regarding the type, price and purchaser for a third-party supplier's ancillary service**
- **FERC retained the ability to require reports from a third-party supplier at any time**

II. Developing a Market for Ancillary Services (including Operating Reserves)

B. Requirements for a Market-Based AS Tariff

- Restrictions on alternative method (no market power study) for Market Based Tariff for Ancillary Service**
 - MUST have a market-based tariff for energy.**
 - Cannot sell to an RTO where the RTO has no ability to self-supply ancillary services.**
 - Cannot sell to transmission provider function of seller's own company or affiliate**
 - TP can purchase at market based rates for its own requirements, but cannot buy at market based for to satisfy its own open access transmission requirement (Scheds 5, 6) to offer ancillary services to its own customers**

II. Developing a Market for Ancillary Services (including Operating Reserves)

C. Non-jurisdictional entity participation

- FERC does not have jurisdiction over the rates or terms of a transaction where the seller is not jurisdictional and the buyer is jurisdictional**
- FERC does have jurisdiction over the wholesale rates of the jurisdictional buyer**
- To the extent the buyer seeks to recover the costs of the “non-jurisdictional” transaction, FERC must deem the rates to be just and reasonable**
- FERC could exclude cost recovery of any costs that it deems to be unjust or unreasonable**

II. Developing a Market for Ancillary Services (including Operating Reserves)

D. RTO Centrally Administered Reserve Market

- RTO procures its spinning reserves and non-spinning reserves from the market (to serve all BAs within the RTO)**
- Market is centrally administered by RTO (RTO procures and calls on reserves without BA action)**
- Definitions, Business Rules, and technical requirements may be examples for use in development of a WSPP Reserves Schedule**

II. Developing a Market for Ancillary Services (including Operating Reserves)

D. RTO Centrally Administered Reserve Market

– Rules for Spinning Reserves

- **Location:** Resource must be within identified zones to assure deliverability
- **Type:** Both Generation and Demand Resources are allowed (Demand Resources cannot equal more than 25% of Reserve)
- **Technical Requirements:** Telemetering, After the fact verification for Demand Resources that load actually was dropped upon instruction
- **Cost:** Market based that includes Opportunity Cost
- **Non-performance:** Damages are no payment plus penalty requirement to provide quantity of reserves without payment

II. Developing a Market for Ancillary Services (including Operating Reserves)

D. RTO Example Reserve Market Design

– Rules for Non-Spinning Reserves

- **Similar Rules to Spinning except off-system resources allowed and they must have firm transmission arrangements in place**
- **Generation capability:**
 - **If start time is greater than 30 minutes, unit must be synchronized and under the operating direction of RTO**
 - **If start time is less than 30 minutes, unit is required to respond to RTO request**
- **Demand Resources are measured as the difference in load from the first minute of the request to the thirtieth minute after the request to perform**

II. Developing a Market for Ancillary Services (including Operating Reserves)

E. Multiple Definitions of Reserves

- **Reliability Reserves (Spinning)**
 - **Order 890 Definition**
 - **NERC Definition**

- **Supplemental Reserves (Non-Spinning)**
 - **Order 890 Definition**
 - **NERC Definition**

III. Potential Design of WSPP Schedule

A. Current WSPP Schedule C

- FERC rejected WSPP-wide Cost Based Ceiling (so WSPP-wide market power analysis is unlikely)**
- Allows capacity transactions, but not defined as AS, and no definition of associated reserves**
- Potential need for different terms and conditions for reserves (e.g. damages, transmission requirement, telemetry, etc.)**
- New schedule with AS detail would allow market for reserves to develop quickly and be referenced in market based tariff filings**

III. Potential Design of WSPP Schedule

B. Potential Design for WSPP Schedule D

- **Definitions and Terms**
 - **Definition of Product (Spinning v. Non-spinning)**
- **Damages (verification and calculation)**
- **Telemetry- allow verification? What else?**
- **Firm transmission requirement**
- **Other Technical Requirements/Filing Issues**



Questions?
Comments?