

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

(October 4, 2017)

Reference: Grid Reliability and Resilience Pricing, Docket No. RM18-1-000

On September 28, 2017, pursuant to section 403 of the Department of Energy Organization Act (DOE Act),¹ the Secretary of Energy proposed a rule for final action by the Federal Energy Regulatory Commission (Commission).² The proposed rule was noticed by the Commission on October 2, 2017, notifying all interested parties that initial comments are due on or before October 23, 2017 and reply comments due on or before November 7, 2017.³

Pursuant to authority delegated to the Director, Office of Energy Policy and Innovation, under 18 C.F.R. § 375.315(b)(2), in order to assist Staff in understanding the implications of the proposed rule, commenters are requested to address the following questions. Commenters need not answer all of the questions and may raise issues not presented in these questions.

Need for Reform

1. What is resilience, how is it measured, and how is it different from reliability? What levels of resilience and reliability are appropriate? How are reliability and resilience valued, or not valued, inside RTOs/ISOs? Do RTO/ISO energy and/or capacity markets properly value reliability and resilience? What resources can address reliability and resilience, and in what ways?

¹ 42 U.S.C. § 7173 (2012).

²The full text of the proposed rule can be found at:
<https://www.energy.gov/downloads/notice-proposed-rulemaking-grid-resiliency-pricing-rule>.

³ *Grid Reliability and Resilience Pricing*, Notice Inviting Comments (Oct. 2, 2017).

2. The proposed rule references the events of the 2014 Polar Vortex, citing the event as an example of the need for the proposed reform. Do commenters agree? Were the changes both operationally and to the RTO/ISO markets in response to these events effective in addressing issues identified during the 2014 Polar Vortex?
3. The proposed rule also references the impacts of other extreme weather events, specifically hurricanes Irma, Harvey, Maria, and superstorm Sandy. Do commenters agree with the proposed rule's characterization of these events? For extreme events like hurricanes, earthquakes, terrorist attacks, or geomagnetic disturbances, what impact would the proposed rule have on the time required for system restoration, particularly if there is associated severe damage to the transmission or distribution system?
4. The proposed rule references the retirement of coal and nuclear resources and a concern from Congress about the potential further loss of valuable generation resources as a basis for action. What impact has the retirement of these resources had on reliability and resilience in RTOs/ISOs to date? What impact on reliability and resilience in RTOs/ISOs can be anticipated under current market constructs?
5. Is fuel diversity within a region or market itself important for resilience? If so, has the changing resource mix had a measurable impact on fuel diversity, or on resilience and reliability?

Eligibility

General Eligibility Questions

1. In determining eligibility for compensation under the proposed rule, should there be a demonstration of a specific need for particular services? What should be the appropriate triggering and termination provisions for compensation under the proposed rule?
2. As the proposed rule focuses on preventing premature retirements, should a final rule be limited to existing units or should new resources also be eligible for cost-recovery? Should it also include repowering of previously retired units? Alternatively, should there be a minimum number of MW or a maximum number of MW for resources receiving cost-of service payments for resilience services? If so, how should RTOs/ISOs determine this MW amount? Should this also include locational and seasonal requirements for eligible resources?

3. Are there other technical characteristics that should be required for an eligible unit besides on-site fuel capability? If so, what are those technical characteristics and what benefits do they provide? What types of resources can meet the proposed eligibility criteria of the proposed rule? What proportion of total current generating capacity does this represent?
4. If technically capable of sustaining output for a sufficient duration (and meeting other relevant requirements), should resources such as hydroelectric, geothermal, dual-fuel with adequate on-site storage, generating units with firm natural gas contracts, or energy storage (each of which might have a demonstrable store of energy to draw upon to sustain an electrical output, if not necessarily fuel) also be eligible? Why or why not? If technical capability is the appropriate criterion for eligibility, what specific technical capability should be required to be eligible?
5. The proposed rule would require that eligible resources be able to provide essential energy and ancillary reliability services and includes a non-exhaustive list of services. What specific services should a resource be required to provide in order to be eligible?
6. The proposed rule would limit eligibility to resources that are not subject to cost of service rate regulation by any state or local regulatory authority. How should the Commission and/or RTOs/ISOs determine which resources satisfy this eligibility requirement?

90-day Requirement

1. The proposed rule defines eligible resources as having a 90-day fuel supply. How should the quantity of a given resource's 90 days of fuel be determined? For example, should each resource be required to have sufficient fuel for 24 hours/day and sustained output at its upper operating limit for the entire 90-day period? Would there be any need for regional differences in this requirement?
2. Is there a direct correlation between the quantity of on-site fuel and a given level of resilience or reliability? Please provide any pertinent analyses or studies. If there is such a correlation, is 90 days of on-site fuel necessary and sufficient to address outages and adverse events? Or is some other duration more appropriate?

Fuel Supply Requirement

1. The proposed rule requires that resources must be in compliance with all applicable environmental regulations. How should environmental regulations be considered when determining eligibility? For example, if a unit that was capable

of keeping 90-days of fuel on-site was subject to emission limits that would prevent it from running at its upper operating limit for 90 days, should that unit be eligible under this proposed rule?

2. As the proposed rule references the need for resilience due to extreme weather events, including hurricanes, should there be any other eligibility criteria for the resource or fuel supply (e.g., storm hardening)? What considerations should be given to the vulnerability of 90-day fuel supplies to natural or man-made disasters such as extreme cold temperatures, icing, flooding conditions, etc. that may impact the on-site fuel supply?
3. Does the vulnerability or non-availability of on-site fuel supplies vary depending upon fuel type, location, region, or other factors?

Implementation

1. How would eligible resources receiving cost of service compensation under the proposed rule be committed and dispatched in the energy market?
2. How would eligible resources receiving cost based compensation under the proposed rule be considered in the clearing and pricing of centralized capacity markets?
3. What is the expected impact of this proposed rule on entry of new generation, reserve margins, retirement of existing resources, and on resource mix over time?
4. Should there be performance requirements for resources receiving compensation under the proposed rule? If so, what should the performance requirement be, and how should it be measured, or tested? What should be the consequence of not meeting the performance requirement?
5. Should there be any restrictions on alternating between market-based and cost-based compensation?

Rates

1. The proposed rule lists compensable costs that should be included in the rate as operating and fuel expenses, costs of capital and debt, and a fair return on equity

and investment. Are there other costs that would be appropriate to be included in the rate? Would any of the listed costs be inappropriate for inclusion?

2. Should wholesale market revenues offset any cost of service payments stemming from the proposed rule?
3. How should RTOs/ISOs allocate the cost of the proposed rule to market participants?
4. How would the requirement that eligible resources receive full cost recovery be reconciled with the requirement, as stated in the regulatory text, that resources be dispatched during grid operations?

Other

1. The proposed requirement for submitting a compliance filing is 15 days after the effective date of any Final Rule in this proceeding, with the tariff changes to take effect 15 days after the compliance filings are due. Please comment on the proposed timing, both to develop a mechanism for implementing the required changes and to implement those changes, including whether or not such changes could be developed and implemented within that timeframe.
2. Please comment on the proposed rule's estimated burden of \$291,042 per respondent RTO/ISO, to develop and implement new market rules as proposed, including the potential software upgrades required to do so.
3. Please describe any alternative approaches that could be taken to accomplish the stated goals of the proposed rule.
4. What impact would the proposed rule have on consumers?
5. The Commission may take notice of relevant public information, including information in other Commission proceedings. If a commenter views information in another Commission proceeding as relevant to the proposed rule, please identify that information and explain how it is relevant to the proposed rule. Such information may include a filing previously submitted by the commenter.

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J. Arnold Quinn, Director
Office of Energy Policy and Innovation

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