Council of Industrial Boiler Owners

Technical Focus Group, Energy & Environmental Committee Meetings

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Update on FERC

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Staff Report to the Secretary on Electricity Markets and Reliability

August 2017

DOE NOPR

- Under section 403 of the DOE Act, DOE directed FERC on September 29, 2017 to initiate a rulemaking that would provide cost of service compensation to power plants that can store 90 days of fuel onsite.
- The intension was to bailout uneconomic coal-fired and nuclear plants that were at risk of retirement.
- This clear cut example of crony capitalism created a firestorm of opposition.
- ELCON worked with a broad coalition of national energy-related trade associations to fight the proposal.

Fake Issue: Grid Resilience

- There is no evidence demonstrating that RTOs/ISOs need to subsidize resources with 90 days of on-site fuel in order to maintain reliable service during severe weather events or otherwise.
- The proposed rule focuses on regions with the highest share of coal and nuclear generation (PJM and MISO) while ignoring the regions with very little such generation, which makes little sense if such resources were actually critical for reliability and resilience.
- Based on 2016 conditions, the cost of out-of-market payments for providing all eligible resources with ongoing costs and a return on investment would likely range from $3.7 billion to $11.2 billion per year.

Source: Evaluation of the DOE's Proposed Grid Resiliency Pricing Rule, Prepared by The Brattle Group, October 2017

FERC Reaction

- In January 2018, FERC rejected the DOE proposal arguing that the record was insufficient in showing that existing ISO/RTO tariffs were no longer just and reasonable.
- It initiated a new proceeding directing ISOs and RTOs to evaluate the resilience of their grids.
- The submissions were filed in March 2018 and not one identified a resiliency problem associated with retiring coal-fired or nuclear power plants.
- Stakeholders were allowed to file “reply comments” on the ISO/RTO filings in May.
- FERC action (if any) is pending. Needs three votes.

DOE Power Subsidy Plan

- On March 29th, FirstEnergy Solutions – FirstEnergy's now bankrupt merchant generator subsidiary – petitioned DOE to declare a "grid emergency" under **section 202(c)** of the Federal Power Act and provide compensation to coal-fired and nuclear power plants.
- The proposal met with some initial opposition within DOE.
- PJM (where most of the troubled plants are located) filed a letter with DOE stating that no such emergency existed.
- It is rumored that the White House ordered a subsidy plan under the pretext of national security.
- There is now active consideration of invoking the **Defense Production Act of 1950 (DPA)** and section 202(c) to bailout the plants.
- National Security Council reviewed the proposal on June 1st and later that day POTUS directed DOE to act.

The Directive

DOE is exercising its DPA and FPA authority by directing **System Operators** (as defined in the Directive), for a period of twenty-four (24) months, to purchase or arrange the purchase of electric energy or electric generation capacity from a designated list of **Subject Generation Facilities (SGFs)** sufficient to forestall any further actions toward retirement, decommissioning, or deactivation of such facilities during the pendency of DOE's Order. DOE also is directing SGFs outside of the RTO/ISO territories to continue generation and delivery of electric energy according to their existing or recent contractual arrangements with Load-Serving Entities. DOE's Order establishes a **Strategic Electric Generation Reserve (SEGR)** to promote the national defense and maximize domestic energy supplies. This prudent stop-gap measure will allow the Department further to address the Nation's grid security challenges while the Order remains in force.

Primary Frequency Response (PFR)

- PFR is an ERS, needed to ensure system reliability and stability in both real-time operations and also during system restoration events.
- It is the first stage of interconnection-wide frequency control needed to prevent Under Frequency Load Shedding(UFLS) and to prevent equipment damage.
- It is provided automatically by unit governors or equivalent speed control systems.
- Its response is in seconds and not controlled by any centralized authority.
- It is critical for controlling frequency in system restoration event.

FERC PFR NOPR
Docket No. RM16-6-000

- Issued by FERC on November 17, 2016
- Requires all new small and large generators to install and enable primary frequency response capability
- Applies to synchronous and non-synchronous resources
- Specifies governor or equivalent controls to be operated with maximum 5% droop and ±0.036 Hz dead band settings
- Requires timely and sustained response to frequency deviations
- Would prohibit any controls that override governor response

ELCON Response

- CHP units that are “sized to the load” generally cannot comply with this mandate. During any frequency event, the equipment’s responsibility is to protect itself and the steam host and not try to bailout the utility outside the fence. Hence the mandate will discourage new CHP.
- FERC was urged to adopt a market-based solution, i.e., establish a PFR market that provides compensation for the service and lets generators opt in.
- In a February 2018 order, FERC approved the NOPR but granted ELCON’s request for a limited exemption.

Electric Storage

- Electric storage has often been described as the "holy grail" or "Swiss Army knife" of the grid.
- The technology has been victimized by regulatory policies and tariffs that are generator centric.
- FERC has hosted a series of inquiries in an attempt to identify discriminatory practices that act as barriers to adoption of this technology.
- In February, FERC issued an order directing ISOs and RTOs to remove barriers to the participation of electric storage resources in their capacity, energy and ancillary services markets.

Distributed Energy Resources

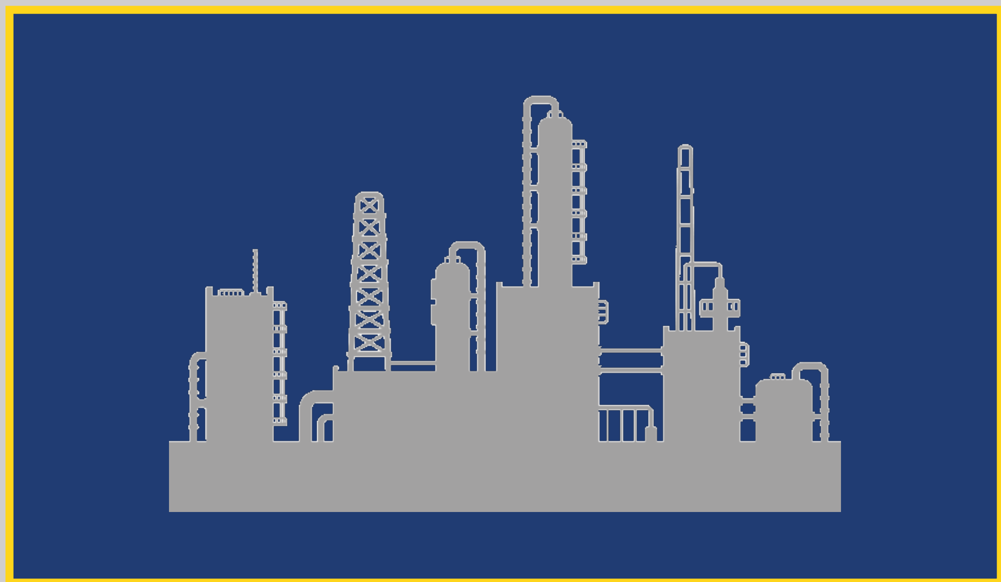
- FERC has been attempting to remove barriers to market participation by aggregators of distributed energy resources.
- The issue was initiated as part of the rulemaking on electric storage—but was never acted on in the final order. FERC staff was directed to research the issue and host a technical conference. A detailed staff report was released in February and a technical conference was held April 10-11.
- The issue is very complex. There is considerable opposition to allowing aggregated <u>retail</u> load in wholesale markets. There are also some technical concerns related to locational pricing and dispatch.
- Stay tuned.

Other FERC Issues

- In March, FERC initiated an inquiry on the effect of the **Tax Cuts and Jobs Act** on its jurisdictional rates (electric transmission and oil and gas pipelines). It also issued "show-cause orders" to 48 utilities directing them to revise their tariffs to conform with the lower tax rate.
- In April, FERC issued final rules to improve the transparency of ISO/RTO markets related to the use of **uplift** payments. Uplift refers to a payment that a grid operator makes to a resource when market revenues are insufficient to cover the resource's operating costs.

ELCON

Electricity Consumers Resource Council



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