



June 21, 2012

Commissioner John R. Norris

STATEMENT

Docket Nos. : RM11-24-000, AD10-13-000 and RM10-11-000

Item Nos.: E-2 and E-3

Statement of Commissioner John R. Norris on Variable Energy Resources Final Rule and Notice of Proposed Rulemaking on Ancillary Services and Storage Technologies

"I support these two orders because I think on their own they are both important issues that the Commission needed to consider. Additionally, I support them because they represent a larger movement by the Commission and our country towards an evolving energy future. Over the last decade, policy drivers and technological advancements have resulted in a number of changes in our energy system. As a result of those changes, we can no longer go on with business as usual. We need to take a closer look at how we do things, and at existing rules that were geared towards a conventional generation fleet. Those rules have served us well in the past, but may not fit our needs going forward.

The Commission has been grappling with this new energy reality for some time now, recognizing that changes in the resources participating in our energy system will necessitate changes in how the system is operated. I see today's orders as creating operational efficiencies to mirror those policy drivers and technological advancements that are changing our energy system.

With this framework in mind, I see the reforms presented in the Final Rule on the Integration of Variable Energy Resources (VERs) and the Notice of Proposed Rulemaking on the third party provision of ancillary services as complementary (*Avista* NOPR). The VERs Final Rule addresses some of the operational changes needed to recognize the different characteristics of wind and solar technologies that are being added to our generation mix. The incremental reforms we adopt in the VERs Final Rule will help mitigate the need for ancillary services, particularly the reserves that balance and integrate VERs. Even with these reforms, however, ancillary services will still be needed to balance and integrate VERs. The *Avista* NOPR proposes to address some of the barriers to developing a more robust market for the efficient provision of these ancillary services by a variety of entities.

With respect to the VERs Final Rule specifically, the Commission initiated a rulemaking docket more than two years ago with the issuance of a Notice of Inquiry (NOI), just before I came to the Commission. That NOI, and the comments from industry and the public we received in response, covered a broad range of topics related to the integration of VERs. In the subsequent NOPR, the Commission took into account ongoing industry efforts to integrate VERs and focused its attention on a set of basic reforms regarding transmission scheduling, data reporting, and capacity reserve charges. Now, based on further feedback, we have fine-tuned this package of reforms to address some of the practical implications of the operational changes required.

I understand that we got a lot of pushback from industry, particularly about the 15 minutes scheduling requirement in the Final Rule. A lot of commenters urged us to provide them with flexibility, given their existing efforts to integrate VERs, and cautioned that compliance with the 15-minute scheduling requirement could hinder ongoing efforts that promise even greater efficiencies and benefits. We respond



here by giving entities greater flexibility in meeting this requirement. However, we require entities that opt for this more flexible approach to demonstrate what efforts they will undertake to achieve greater efficiencies in their operational practices, and the Commission will evaluate on compliance whether those proposals are consistent with or superior to the requirements in the Final Rule. I do not have a pre-conceived outcome in mind as to how entities might utilize this flexibility, but I will carefully review any proposal to ensure that it achieves needed operational efficiencies that are at least on par with those that would be provided by 15-minute scheduling.

Turning to the *Avista* NOPR, here the Commission addresses one specific aspect of the Commission's *Avista* policy – the prohibition against third-parties making market-based rate sales to a public utility that is purchasing ancillary services to satisfy its open access transmission tariff responsibilities. Since 1999 when the *Avista* restrictions were first put into place, much has changed. As a growing number of variable energy resources are coming on to the grid, there is a growing need for ancillary services such as reserves to ensure that those resources are reliably and efficiently integrated into the transmission grid. At the same time, new technologies such as storage are being developed that are capable of providing these needed ancillary services.

The *Avista* policy governing the sale of ancillary services at market-based rates to public utility transmission providers is fundamentally a consumer protection policy. However, I also believe that our rapidly changing energy landscape requires another look at the *Avista* restrictions. Today's NOPR responds to these changes on the Nation's electric grid by providing greater flexibility to sellers who want to sell ancillary services to public utility transmission providers, while balancing that flexibility with the need to continue to protect transmission customers from an exercise of market power by third-parties that could lead to unjust and unreasonable rates.

I also wanted to focus on two additional specific aspects of the NOPR proposal. First, I wanted to mention the NOPR's requirements regarding the provision of ancillary services by faster and more accurate resources. Specifically, the Commission proposes to require all public utility transmission providers (not just the RTOs and ISOs that were addressed in last year's Order No. 755) to identify how they will account for the speed and accuracy of resources used to provide Regulation and Frequency Response when establishing ancillary services requirements for customers. I am very supportive of this proposal because I believe it is essential to appropriately compensate resources that can more efficiently provide ancillary services. The flexibility of these resources can help our system be more efficient, reliable and cost-effective and that is good for consumers and should be encouraged.

Second, I wanted to highlight the accounting requirements for energy storage assets that are included in the NOPR. Rather than create a new functional classification in the Uniform System of Accounts specific to energy storage assets, the NOPR proposes to create new accounts for energy storage costs within the existing accounting functional classifications. We note that, based on our analysis, it does not appear that creating a new functional classification would provide additional benefits compared to creating new accounts within the existing classifications. I am interested in any comments about the practical impacts of this proposal on energy storage assets. I encourage storage providers to give us their input once they review our proposal.

Finally, I wanted to note that the functional classifications will not by themselves determine how energy storage assets recover their costs via cost-based and/or market-based mechanisms. Instead, the Commission will separately review any proposals from public utilities that simultaneously seek to recover costs under cost-based and market-based rate mechanisms using a single energy storage asset. The Commission will evaluate any such proposals on a case-by-case basis, separate and apart from the Commission's accounting proposal here."