

References to Capacity Benefit Margin in FERC Orders

From FERC Order 890

From Page 1045:

§ 37.6 Information to be posted on the OASIS.

(vii) Capacity Benefit Margin or CBM means the amount of TTC preserved by the Transmission Provider for load-serving entities, whose loads are located on that Transmission Provider's system, to enable access by the load-serving entities to generation from interconnected systems to meet generation reliability requirements, or such definition as contained in Commission-approved Reliability Standards.

Starting on Page 157:

(3) Capacity Benefit Margin (CBM)

NOPR Proposal

248. In the NOPR, the Commission proposed three options to address the CBM component of ATC: (1) have NERC develop clear standards for how the CBM value should be determined, allocated across transmission paths, and used; (2) charge an entity for which transfer capability has been set aside to meet generation reliability criteria a separate rate for this service; or (3) eliminate CBM and require an entity reserving ATC to meet generation reserve (currently through CBM) to designate network resources on the other side of the interface and make an associated transmission service reservation.

Comments

249. Numerous commenters support the Commission's proposed option one, requiring NERC to develop clear standards for how the CBM value should be determined, allocated across transmission paths, and used.¹⁷³ They believe that CBM ensures the ability to import needed power to support system conditions. TVA argues that option two would be costly and may cause some systems to forego CBM, thereby jeopardizing service to native load customers. PJM states that option two is irrelevant in PJM since PJM "totals" reservations and decides when CBM can be used. Supporters of option one criticize option three, elimination of CBM, as costly and a threat to transmission system reliability. Southern, Progress Energy, and PJM emphasize that, without CBM, the LSEs would need to increase their reserve margin by contracting for additional generation

¹⁷³ E.g., Allegheny, Ameren, EEI, Duke, NRECA, TVA, APPA, Bonneville, EPSA, FirstEnergy, Indianapolis Power, MidAmerican, Pinnacle, PJM, PGP, PNMTNMP, Public Power Council, Sacramento, Seattle, South Carolina E&G, TANC, TDU Systems, and Wisconsin Electric.

capacity, costing millions of dollars. In addition, Ameren and TVA believe that CBM elimination will increase the likelihood of widespread blackouts in emergency conditions.

250. At the October 12 Technical Conference, Exelon supported option two proposing a charge for CBM. Exelon contended that, in a rate-making context, there would be an increase in the divisor of the rate by the amount of CBM set-aside which would lower the point-to-point charge. Consequently, those not benefiting from the CBM set-aside effectively would be paying a lower charge.

251. Constellation and Morgan Stanley support the elimination of CBM and argue that CBM and TRM are often used interchangeably and result in duplicative transmission set-asides. They also argue that there is no compelling need for CBM in the current liquid market environment. In addition, Morgan Stanley states that LSEs affiliated with the transmission provider should not be allowed to use CBM for long-term planning purposes as an excuse to avoid undertaking needed resource additions or to conceal the true cost of their load serving functions. Furthermore, the Commission should not be distracted by assertions that such long-term arrangements are necessary for “reliability,” when in fact they are simply a way to protect the economic interests of a particular entity.

252. Duke replies that Constellation mistakenly believes that CBM is currently only available to a transmission provider’s native load when, in fact, for those transmission providers that establish CBM, it should be established for the load of all LSEs in the control area. Duke contends that not all transmission providers set aside capacity through CBM for their native load; to the extent that a transmission provider does not set aside CBM, there should be no obligation to allow other LSEs to do so. Duke proposes that the Commission should continue to permit such flexibility.

253. NERC takes no position on CBM, expecting that the issue can be settled through the NERC and NAESB Procedure for Joint Standards Development and Coordination and through other open forums.

254. TAPS suggests that the Commission ensure that all LSEs have both access to CBM to meet their reserve-sharing needs and meaningful input into how much CBM is reserved. To do so, TAPS recommends the creation of a reserve-sharing group made up of the transmission provider and LSEs it serves. It argues that this would remove reservation decisions from the sole discretion of the vertically-integrated transmission provider and instead have them made by the transmission provider/LSE reserve-sharing group, subject to dispute resolution at the Commission. All LSEs would be invited to participate in the studies as well as review the results and assumptions. Moreover, once a regional planning process is established, as proposed in the NOPR, TAPS recommends that the regional planning group be required to approve the CBM reservation as well.

255. Williams suggests that a transmission provider must designate network resources and reserve firm transfer capability on both sides of the control area transmission

interface in order to reserve CBM. Duke replies that, although some commenters prefer eliminating CBM and replacing it with additional designated network resources, CBM is the preferable option because it is less costly. Duke further argues that the choice is between setting aside both additional transmission and generation capacity to deal with emergencies (the additional designated network resource approach) versus setting aside only transmission (the CBM approach). Having to procure additional designated network resources to keep in reserve reduces one of the main benefits of interconnected operations. Duke argues that eliminating CBM would drive up costs for network customers, as they would have to procure additional generation and transmission resources. EEI adds that such a proposal may result in increased LSE reserve requirements, over-building of generation supply, and a reduction, rather than an increase, in ATC.

Commission Determination

256. The Commission concludes that it is appropriate to allow LSEs to retain the option of setting aside transfer capability in the form of CBM to maintain their generation reliability requirement. We agree with commenters that, without CBM, LSEs would have to increase their generation reserve margins by contracting for generation capacity, which may result in higher costs without additional reliability benefits. We require, however, the development of standards for how CBM is determined, allocated across transmission paths, and used in order to limit misuse of transfer capability set aside as CBM. Transmission providers also must reflect the set-aside of transfer capability as CBM in the development of the rate for point-to-point transmission service to ensure comparable treatment for point-to-point to customers.

257. The Commission therefore adopts a combination of the NOPR options one and two, and declines to adopt option three. First, we require public utilities, working through NERC and NAESB, to develop clear standards for how the CBM value shall be determined, allocated across transmission paths, and used. We understand that NERC has already begun the process of modifying several of the CBM-related reliability standards and that the drafting process is a joint project with NAESB. Second, we require transmission providers to reflect the set-aside of transfer capability as CBM in the development of the rate for point-to-point transmission service.

258. We note that there is broad concern that eliminating CBM (option three) would impose extraordinary costs for meeting generation reliability criteria, which then may lead utilities to reduce their generation reliability requirement to avoid the cost increase. We believe that the reforms reflected in combining options one and two are sufficient to remedy undue discrimination and that the adverse effects associated with option three are neither warranted nor required. We reject Morgan Stanley's call for CBM elimination on the grounds that CBM is acting as a disincentive to undertake needed generation resource additions. It would be inappropriate for the Commission to restrict the ability of an LSE to determine how best to meet its generation reliability criteria.

259. To ensure CBM is used for its intended purpose, CBM shall only be used to allow an LSE to meet its generation reliability criteria. Consistent with Duke's statement, we clarify that each LSE within a transmission provider's control area has the right to request the transmission provider to set aside transfer capability as CBM for the LSE to meet its historical, state, RTO, or regional generation reliability criteria requirement such as reserve margin, loss of load probability (LOLP), the loss of largest units, etc.

260. We direct public utilities, working through NERC, to develop clear requirements for allocating CBM over transmission paths and flowgates. While we do not mandate a particular methodology for allocating CBM to paths and flowgates, one approach could be based on the location of the outside resources or spot market hubs that an LSE has historically relied on during emergencies resulting from an energy deficiency.

261. We concur with TAPS' proposal that all LSEs should have access to CBM and meaningful input into how much transfer capability is set aside as CBM. In the transparency section below, we provide detailed requirements regarding availability of documentation used to determine the amount of transfer capability to be set aside as CBM and the posting of CBM values and narratives. Access to this documentation will enable LSEs to validate how much transfer capability is set aside as CBM on each system and provide them with information to question whether the set-aside is consistent with the reliability standards and this Final Rule.

262. Concerning TAPS' proposal to remove the reservation decision from the sole discretion of transmission providers, we determine that LSEs should be permitted to call for use of CBM, if they do so pursuant to conditions established in the reliability standards development process. We direct public utilities working through NERC to modify the CBM-related standards to specify the generation deficiency conditions during which an LSE will be allowed to use the transfer capability reserved as CBM. In addition, we direct that transmission set aside as CBM shall be zero in non-firm ATC calculations. Finally, we order public utilities to work with NAESB to develop an OASIS mechanism that will allow for auditing of CBM usage.

263. We also require transmission providers to design their transmission charges to ensure that the class of customers not benefiting from the CBM set-aside, i.e., point-to-point customers, do not pay a transmission charge that includes the cost of the CBM setaside. To do this, transmission providers are required to submit redesigned transmission charges that reflect the CBM set-aside through a limited issue FPA section 205 rate filing as part of its initial ATC-related compliance filing. These filings, which may be submitted within 120 days after the publication of the Final Rule in the Federal Register, may be limited to the rate design change only, i.e., they will not require the submission of cost of service data or a revision to the transmission provider's revenue requirement.

264. With respect to TAPS' proposal that all LSEs should be allowed to use CBM to meet their reserve-sharing needs, we believe that TRM is the appropriate category for that purpose, not CBM. We reject TAPS' proposal to use CBM for the LSE's reserve-sharing needs, but instead make TRM available for the incremental power flows resulting from reserve sharing, as explained next.

265. As we are rejecting option three, which would have required the reservation of transfer capability rather than using CBM, we also reject Williams' proposal to require the reservation of transfer capability on both sides of an interface for CBM.

From FERC Order 693

Starting on Page 293:

f. Documentation of Regional Reliability Organization Capacity Benefit Margin Methodologies (MOD-004-0)

1067. MOD-004-0 requires each regional reliability organization to: (1) develop and document a regional CBM¹⁷⁴ methodology in conjunction with its members and (2) post the most recent version of its CBM methodology on a website accessible by NERC, regional reliability organizations and transmission users.

1068. In the NOPR, the Commission identified MOD-004-0 as a fill-in-the-blank standard that requires each regional reliability organization to develop and document a regional CBM methodology. The NOPR stated that because the regional CBM methodologies had not been submitted, the Commission would not propose to approve or remand MOD-004-0 until the ERO submits the additional information.

1069. Although not proposing any action, the Commission nonetheless indicated that MOD-004-0 could be improved by: (1) providing more specific requirements on how CBM should be determined and allocated to interfaces and (2) including a provision ensuring that CBM, TRM and ETC cannot be used for the same purpose, such as the loss of an identical generation unit. Further, the Commission expressed concern that the Reliability Standard may unduly impact competition because of the lack of consistent criteria and clarity with regard to the entity on whose behalf CBM has been set aside.

¹⁷⁴ The NERC glossary defines "capacity benefit margin" or "CBM" as the amount of firm transmission transfer capability preserved by a transmission provider for load serving entities whose loads are located on the transmission service provider's system, to enable access by the load serving entity to generation from interconnected systems to meet generation reliability requirements. NERC Glossary at 2.

This lack of consistent criteria has the potential to result in the transmission provider's setting aside capacity that it might not otherwise need to set aside, thus increasing costs for native load customers and blocking third party uses of the transmission system.

i. Comments

1070. APPA agrees with the Commission that MOD-004-0 should not be approved as a mandatory Reliability Standard until the relevant regional procedures are submitted and approved.¹⁷⁵

1071. FirstEnergy states that transmission capacity margins such as CBM and TRM are vitally important to the reliability of the system, and any methodology that would unduly limit these margins could create a danger of limiting transmission capacity over interconnected facilities that would limit the ability of balancing authorities and others to obtain generation reserves needed from the grid during contingency events. In contrast, TAPS questions how TRM or, especially, CBM, can be viewed as Reliability Standards if they are optional for the transmission provider.

1072. MidAmerican supports greater uniformity of CBM definitions and calculations and states that the revised standard and/or new standards should support transparency and uniformity by encouraging increased availability of information and consistent data input and modeling assumptions. EEI emphasizes that additional data and information-sharing requirements would improve the transparency of various calculations and assumptions related to CBM, including this standard and the other CBM-related standards. EEI believes that, similar to the peer review processes of the planning studies carried out under the TPL standards, industry participants are best suited to developing the totality of assumptions, system conditions and other input variables that support the calculations.

1073. EEI notes that, with respect to the Commission's particular concern about criteria in determining resources and loads used in the CBM methodology, NERC's "ATC Definitions and Determination"¹⁷⁶ document clearly delineates the purpose and intent of the calculation of CBM and TRM. EEI states that CBM is intended to provide generation reliability, and TRM is intended to provide transmission reliability. EEI believes that, to

¹⁷⁵ APPA notes that it has expressed its own concerns with CBM calculations and set-asides in its August 7, 2006 Initial Comments filed in Docket No. RM05-25-000, at 31-55. APPA is hopeful these concerns can be addressed through NERC's Reliability Standards development process.

¹⁷⁶ NERC, Available Transfer Capability Definitions and Determination - A Framework for Determining Available Transfer Capabilities of the Interconnected Transmission Networks for a Commercially Viable Electricity Market (June 1996).

the extent capacity capable of supplying CBM is located in the vicinity of the designated facility experiencing an outage, transmission may or may not be available under the native load reservation normally used for the facility. Therefore, EEI argues, CBM may be needed on an interface where capacity is available for use as CBM, and not allowing all generation to be considered in this manner may unduly increase the generation reserve requirement within the transmission provider's system.

1074. EEI agrees with the Commission's concern about double-counting TRM for those transmission providers who do not opt to use CBM. However, EEI argues that for transmission providers who do opt to use CBM, it may be appropriate in some circumstances to use the same generation unit outage to determine the impact on both generation and transmission reliability because the impacts are different. EEI cautions that artificially restricting such use is not appropriate, especially before NERC's development of TRM and CBM standards and their presentation to FERC through the Reliability Standards development process. EEI recommends that the Commission encourage transmission providers to make CBM and TRM capacity available to wholesale markets for purchase on a non-firm basis, because doing so would ensure that both CBM and TRM capacity are available to the transmission provider during system emergencies, as intended. EEI notes that at other times the transfer capability associated with TRM and CBM would be available to the market, alleviating the concern of possible double-counting. MidAmerican also supports the Commission's conclusion that double-counting would be inappropriate, although MidAmerican states that it is not aware of any cases of double-counting of margins.

1075. TAPS notes the significant potential for abuse¹⁷⁷ that could result from the current flexibility afforded transmission providers in the calculation of CBM and TRM, and proposes innovative approaches¹⁷⁸ to take CBM and (to the extent it is intended to cover transmission required for reserve sharing) TRM out of the hands of individual transmission providers, and to therefore reduce the opportunity for abuse.

ii. Commission Determination

1076. The Commission adopts the NOPR proposal not to approve or remand MOD-004-0 until the ERO submits additional information. Because the regional procedures have not been submitted to the Commission, it is not possible to determine at this time whether MOD-004-0 satisfies the statutory requirement that a proposed Reliability Standard be "just, reasonable, not unduly discriminatory or preferential, and in the public interest."

¹⁷⁷ Documented by NERC's April 14, 2005 Long-Term AFC/ATC Task Force

Final Report.

¹⁷⁸ TAPS refers the Commission to its August 7, 2006 comments in Docket No.

RM05-25-000 at 21-24.

Accordingly, the Commission neither accepts nor remands this Reliability Standard until the regional procedures are submitted. In the interim, compliance with MOD-004-0 should continue on a voluntary basis, and the Commission considers compliance with the Reliability Standard to be a matter of good utility practice. Consistent with Order No. 890 and comments received in response to the NOPR, the Commission directs the ERO, through the Reliability Standards development process, to modify MOD-004-0 as discussed below.

1077. We agree with FirstEnergy that CBM is important for system reliability by allowing the LSEs to meet their historical, state, RTO or regional generation reliability criteria requirement such as reserve margin, loss of load probability, loss of largest units, etc. We agree with EEI and MidAmerican that transparency of the studies supporting CBM determination will reduce the opportunity for transmission service providers to overestimate the amount of CBM and misuse transfer capability. We therefore direct the ERO to develop Requirements regarding transparency of the generation planning studies used to determine CBM values. We also clarify that CBM should only be set aside upon request of any LSE within a balancing area to meet its verifiable historical, state, RTO or regional generation reliability criteria requirement such as reserve margin, loss of load probability, loss of largest units, etc. We expect verification of the CBM values to be part of the Requirements with appropriate Measures and Levels of Non-Compliance.

1078. We continue to believe this Reliability Standard should be modified to include a provision ensuring that CBM, TRM and ETC cannot be used for the same purpose, such as loss of the identical generating unit. In order to limit misuse of transfer capability set aside as CBM, we direct the ERO to provide more specific requirements for how CBM should be determined and allocated across transmission paths or flowgates. As we stated in Order No. 890, we do not mandate a particular methodology for allocating CBM to paths or flowgates. For example, one approach could be based on the location of the outside resources or spot market hubs that a LSE has historically relied on during emergencies resulting from an energy deficiency, but we agree with EEI that flexible rules should be allowed to prevent unnecessary increase of the generation reserve requirement within the transmission provider's system. Therefore, we support flexibility, but expect that the ERO, using its Reliability Standards development process, will adequately approach these complex technical issues and propose a new version of MOD-004-0 that addresses the methods for CBM determination and allocation on paths that will reduce reliability and discrimination concerns.

1079. In response to TAPS's question asking how CBM can be viewed as a Reliability Standard if it is optional to the transmission provider, our understanding is that transmission providers that have opted not to use CBM have instead set aside transmission margin (needed to bring in outside power to meet generation reliability criteria) either through ETC or TRM. CBM is not the only way to reserve transmission capacity for a margin. However, if the Reliability Standard is not clear regarding the method of calculating transmission margins, it may cause double-counting of

transmission margins and reduction of ATC. As we stated in Order No. 890, we find that clear specification of the permitted purposes for which entities may reserve CBM and TRM will virtually eliminate double-counting of TRM and CBM. Therefore, we direct the ERO to modify its standard in order to prevent setting aside transfer capability for the same purposes.

1080. We share TAPS's concern that there is a significant potential for abuse as a result of the current flexibility afforded to transmission providers in the calculation of both CBM and TRM. In response to TAPS's concern, we clarify that in accordance with the OATT Reform Final Rule and the ERO CBM definition, each LSE has the right to request CBM be set aside and use it to meet its verifiable historical, state, RTO or regional generation reliability criteria requirement such as reserve margin, loss of load probability, loss of largest units, etc. As such, the LSEs that request CBM be set aside must be identified as applicable entities with identified Requirements, including Requirements on generation studies to verify the set aside, Measures and Levels of Non-Compliance. We direct the ERO to modify the Reliability Standard accordingly.

1081. We agree with TAPS that there is a need for clearer requirements in the standard regarding to whom and how to submit a request for CBM set-aside, and what the transmission service provider should do if the sum of all CBM requirements exceeds the amount of available transfer capability. We direct the ERO to address the reliability aspects in the Reliability Standards development process and explore with NAESB whether business practices would be required.

1082. Accordingly, the Commission neither accepts nor remands MOD-004-0 until the ERO submits additional information. In the interim, compliance with MOD-004-0 should continue on a voluntary basis, and the Commission considers compliance with the Reliability Standard to be a matter of good utility practice. Although the Commission did not propose any action with regard to MOD-004-0, it addressed above a number of concerns regarding the Reliability Standard, consistent with those set forth in Order No. 890. Therefore, we direct the ERO to develop modifications to the Reliability Standard through the Reliability Standards development process to: (1) clarify that CBM shall be set aside upon request of any LSE within a balancing area to meet its verifiable historical, state, RTO or regional generation reliability criteria; (2) develop requirements regarding transparency of the generation planning studies used to determine CBM value; (3) modify the current Requirements to make clear the process for how CBM is allocated across transmission paths or flowgates; (3) modify its standard in order to prevent setting aside CBM and TRM for the same purposes; (4) modify the standard by adding LSE as an applicable entity and (5) coordinate with NAESB business practice standards.

1083. We direct the ERO to consider APPA's suggestion that MOD-004-0 may be redundant and should be eliminated if the ERO develops a modification to the MOD-002-0 Reliability Standard that includes reporting requirements

g. Procedure for Verifying Capacity Benefit Margin Values (MOD-005-1)

1084. MOD-005-1 specifies the requirements regarding the periodic review of a transmission service provider's adherence to the regional reliability organization's CBM methodology. It requires each regional reliability organization to: (1) develop and implement a procedure to review at least annually the CBM calculations and the resulting values determined by member transmission service providers; (2) document its CBM review procedure and (3) make the results of the most current CBM review available to NERC upon request.

1085. In the NOPR, the Commission identified MOD-005-0 as a fill-in-the-blank standard that requires each regional reliability organization to develop and implement a procedure to review CBM calculations and the resulting values and to make the documentation of the results of the CBM review available to NERC and others. The NOPR stated that because the regional procedures had not been submitted, the Commission would not propose to approve or remand MOD-005-0 until the ERO submits the additional information.

i. Comments

1086. APPA agrees that MOD-005-0 is a fill-in-the blank standard, and that in its current form, it is not sufficient and should not be accepted for approval as a mandatory Reliability Standard until the necessary regional procedures have been submitted and approved. APPA suggests that NERC modify MOD-006-0, so that MOD-004-0 and MOD-005-0 could be eliminated.

ii. Commission Determination

1087. The Commission adopts the NOPR proposal not to approve or remand MOD-005-0 until the ERO submits additional information. Because the regional procedures have not been submitted to the Commission, it is not possible to determine at this time whether MOD-005-0 satisfies the statutory requirement that a proposed Reliability Standard be "just, reasonable, not unduly discriminatory or preferential, and in the public interest." Accordingly, the Commission neither accepts nor remands this Reliability Standard until the regional procedures are submitted. In the interim, compliance with MOD-005-0 should continue on a voluntary basis, and the Commission considers compliance with the Reliability Standard to be a matter of good utility practice.

1088. As to APPA's comment on incorporating MOD-004 and MOD-005 into MOD-006, we direct the ERO to consider those comments through the Reliability Standards development process.

h. Procedure for Use of Capacity Benefit Margin Values (MOD-006-0)

1089. The purpose of MOD-006-0 is to promote the consistent and uniform use of transmission CBM calculations among transmission system users. MOD-006-0 requires that each transmission service provider document its procedure for the scheduling of energy against a CBM reservation and make the procedure available on a website accessible by the regional reliability organization, NERC and transmission users.

1090. In the NOPR, the Commission proposed to approve Reliability Standard MOD-006-0 as mandatory and enforceable. In addition, the Commission proposed to direct NERC to submit a modification to MOD-006-0 that: (1) includes a provision that will ensure that CBM and TRM are not used for the same purpose; (2) modifies Requirement R1.2 so that concurrent occurrence of generation deficiency and transmission constraints is not a required condition for CBM usage; (3) modifies Requirement R1.2 to define “generation deficiency” based on a specific energy emergency alert level and (4) expands the applicability section to include the entities that actually use CBM, such as LSEs.

1091. In addition, the Commission proposed that NERC should clarify the requirements to address when and how CBM can be used to reduce transmission provider discretion with regard to CBM usage. The Commission provided guidance expressing its belief that CBM should be used only when the LSE’s local generation capacity is insufficient to meet balancing Reliability Standards, and that CBM should have a zero value in the calculation of non-firm ATC.

i. Comments

1092. APPA supports the Commission’s proposal to approve MOD-006-0. Moreover, APPA agrees with the Commission’s proposed directives¹⁷⁹ that the standard should address the use of CBM and TRM for the same purpose. However, APPA believes that the specificity of the Commission’s proposed directives to NERC, if implemented, would undermine NERC’s role as the approved ERO with the technical expertise to develop and revise standards for the Commission’s subsequent review. APPA therefore suggests that the Commission in its Final Rule make clear to NERC its concerns about MOD-006-0, but then let NERC address those concerns through its Reliability Standard development process.

1093. Regarding the Commission’s proposal that MOD-006-0 R1.2 be modified "so that concurrent occurrence of transmission constraints and a generation deficiency is not a requirement for CBM usage," WEPCO asserts that the Commission is misinterpreting CBM. WEPCO states that if there is no transmission constraint then there is no need to use CBM. In that case, transmission capacity exists for a LSE to import energy. If there is a transmission constraint, CBM reserves transmission capacity that the LSE can use to import energy for reliability needs.

¹⁷⁹ NOPR at P 642.

1094. EEI points out that the explicit intention for CBM is that it be used only during conditions where there are emergency generation deficiencies. However, EEI emphasizes that the Commission's recommendation does not consider that the LSE's supply and demand balance varies season to season, over time, and with supply and demand uncertainties. EEI says that the development of CBM quantities must be carried out in a manner that sets aside transmission capability for forecasted conditions and uncertainties much like the native load reservations necessary for serving reasonably forecasted native load. An argument may be made that during a period of time when a LSE's expected reserves are substantially greater than its targeted reserves, the need for CBM set-aside decreases. However, should the LSE foresee that this "excess" would occur substantially in the future, a reduction in CBM would not be warranted since substantial uncertainties still exist.

1095. Additionally, regarding the Commission's proposal that a LSE that "has sufficient generation resources within its balancing authority to meet the balancing Reliability Standards, should not need to preserve capacity for CBM at all," WEPCO argues that just because the balancing authority has sufficient generation does not mean that there is sufficient transmission capacity to deliver the energy to the LSE. WEPCO states that the LSE may be remote from the bulk of the balancing authority, so there may be occasions when a LSE that has sufficient generation resources within its balancing authority to meet the balancing Reliability Standards may still need to reserve capacity for CBM. In addition, EEI argues that the Commission's viewpoint does not take into account the availability of these resources unless they are under contract with the LSE to provide this service. EEI contends that the implication of this suggestion is to unduly restrict the sources of generation capacity available for CBM during times of generation shortage, which results in the LSE's being captive to local generation that is available and does not allow access to the market outside of the LSE's balancing authority. Additionally, EEI cautions that this action may require the LSE to develop contractual agreements with local generation and thus increase costs to the LSE's rate payers.

1096. Given the strong direction on CBM issues in the OATT Reform NOPR, TAPS assumes that the Commission would not be approving the Version 0 standards on these competitively crucial issues, but would continue to address them forcefully in the OATT Reform proceeding. TAPS notes that, although that is the course largely adopted by the NOPR in this proceeding, the NOPR¹⁸⁰ proposes to approve MOD-006-0 and MOD-007-0, with directions to improve these standards. TAPS notes that such action is inconsistent with the Commission's general approach to ATC/TTC/TRM/CBM standards in this docket and the OATT Reform NOPR. TAPS further states that, given the absence of clear access of non-transmission owner LSEs to CBM, the proposed expansion of MOD-007-0 to include such LSEs in the NOPR¹⁸¹ seems bizarre.

¹⁸⁰ Id. at P 642, 648.

¹⁸¹ Id. at P 647-48.

ii. Commission Determination

1097. The Commission adopts the NOPR proposal to approve MOD-006-0 as mandatory and enforceable. Consistent with Order No. 890 and comments received in response to the NOPR, the Commission directs the ERO to modify MOD-006-0 as discussed below.

1098. Consistent with the views of many commenters, we adopt the NOPR proposal that requires a provision that will ensure that CBM and TRM are not used for the same purpose. As discussed under MOD-004-0 concerning the reservation of transfer capacity, we believe that if the Reliability Standard is not clear regarding the conditions specifying both the reservation and the use of CBM, it may cause double-counting. Such double-counting will lead to an unnecessary reduction of ATC, and create opportunities for discrimination. Therefore, we direct the ERO to modify its standard to prevent use of CBM and TRM for the same purposes. We agree with APPA that the ERO should use its Reliability Standards development process to address the double-counting problem.

1099. We adopt the NOPR's proposal and direct the ERO to modify Requirement R1.2 so that a transmission constraint is not a required condition for CBM usage. The glossary definition and the use as defined in Order No. 890 is that CBM "is intended to be used by the LSE only in time of emergency generation deficiencies."¹⁸² Therefore we direct the ERO to modify the standard in the manner proposed in the NOPR.

1100. We adopt the NOPR proposal that requires modification of Requirement R1.2 to define "generation deficiency" based on a specific energy emergency alert level. This approach will provide clarity as to when the use of CBM may be permitted. We therefore direct the ERO to modify the Reliability Standard to include a specific energy emergency alert level that will trigger CBM usage.

1101. We also reiterate the direction in Order No. 890 that CBM should have a zero value in the calculation of non-firm ATC because non-firm service may be curtailed so that CBM can be used. CBM is reserved as part of the firm transfer capability so that it is available when needed for energy emergencies. We determine that each LSE should be permitted to call for use of CBM, provided all of the other Requirements of R1.1 are met. We direct that CBM may be implemented up to the reserved value when a LSE is facing firm load curtailments.

1102. We adopt the NOPR proposal that CBM should be used only when the LSE's local generation capacity is insufficient to meet balancing Reliability Standards, with the clarification that the local generation is that generation capacity that is either owned or contracted for by the LSE. We disagree with WEPCO that just because the balancing authority has sufficient generation does not mean that there is transmission capacity to

¹⁸² See NERC Glossary at 2.

deliver the energy to the LSE. The Commission finds that such a scenario would violate existing transmission operating and transmission planning Reliability Standards. There is an explicit requirement in the transmission operating standards that generation reserves must be deliverable to load.¹⁸³ Also, there is an explicit requirement in the transmission planning standards that all firm load must be supplied under various system conditions with and without contingencies.¹⁸⁴ The Commission is not prescribing how these requirements should be met. There are a variety of approaches to do so, including adequate transmission capability, local or dynamic generation transfers into the area or DSM. To clarify for EEI, our proposal does not take into account the availability of these resources unless they are under contract with the LSE to provide this service. We developed our NOPR proposal on the rationale derived from the CBM concept, and believe that if there are enough resources to meet generation reliability criteria within the balancing authority, there is no need to request CBM.

1103. We also adopt the NOPR proposal to require the applicability section to include the entities that actually use CBM, such as LSEs. The current CBM definition in the NERC glossary determines that LSEs are users of CBM. Load-serving entities determine when to use CBM, initiate CBM use and call for its end. Load-serving entities therefore have to comply with the standard requirements that specify the conditions under which CBM will be used. We direct the ERO to modify the standard accordingly.

1104. With regard to TAPS's comments concerning its assumption that the Commission would not be approving the Version 0 standards on these issues, but would continue to address them in the OATT Reform proceeding, the Commission finds that MOD-006-0 and MOD-007-0 do not establish CBM values, but rather address CBM implementation and documentation. The implementation of CBM has critical implications for the reliable operation of the Bulk-Power System and we find that these Reliability Standards should be mandatory and enforceable. The competitively significant issue is to assure that there is no double-counting of CBM and to determine the magnitude of CBM which is addressed in other Reliability Standards that the Commission has not approved or remanded.

1105. The Commission approves MOD-006-0 as mandatory and enforceable. In addition, the Commission directs the ERO to develop a modification to Reliability Standard MOD-006-0 through the Reliability Standards development process that: (1) includes a provision that will ensure that CBM and TRM are not used for the same purpose; (2) provides that CBM should be used for emergency generation deficiencies; (3) modifies Requirement R1.2 to define "generation deficiency" based on a specific energy emergency alert level; (4) includes a provision that CBM should have a zero value

¹⁸³ TOP-002-2.

¹⁸⁴ TPL-002-0.

in the calculation of non-firm ATC and (5) expands the applicability section to include the entities that actually use CBM, such as LSEs.

i. Documentation of the Use of Capacity Benefit Margin (MOD-007-0)

1106. MOD-007-0 requires transmission service providers that use CBM to report and post its use.

1107. In the NOPR, the Commission proposed to approve Reliability Standard MOD-007-0 as mandatory and enforceable. In addition, the Commission proposed to direct NERC to submit a modification to MOD-007-0 that expands the applicability section to include the entities that actually use CBM, such as LSEs.

i. Comments

1108. APPA supports the Commission's proposed approval of MOD-007-0. However, it believes that the issue of whether LSEs should be made subject to MOD-007-0 should be left to NERC in the first instance to decide. In so doing, NERC should consider expanding MOD-007-0 to cover not only LSEs, but also balancing authorities. Under NERC's Functional Model, the balancing authority is the entity that would schedule energy over transmission capacity reserved as CBM. Moreover, it is the balancing authority that would know the information necessary to report an incident during which the balancing authority had to import energy from outside the balancing authority's own area from a resource designated as operating reserves and change the net scheduled interchange with the neighboring balancing authorities to allow the energy to flow into the balancing authority's area.

ii. Commission Determination

1109. The Commission approves MOD-007-0 as mandatory and enforceable. Consistent with the comments received in response to the NOPR, the Commission directs the ERO to modify the standard as discussed below.

1110. We also adopt the NOPR's proposal to require the applicability section to include the entities that actually use CBM and report on their CBM use, such as LSEs. The current CBM definition in the NERC glossary determines when a LSE is a CBM user. The LSE determines how much CBM will be set aside, when CBM use will start and when it will end. The LSE must therefore comply with the standard requirements that require reporting and posting of CBM use. We direct the ERO to modify the standard to include the entities that actually use CBM, such as LSEs. In addition, we agree with APPA that the Reliability Standard should apply to balancing authorities and direct the ERO to include balancing authorities within the entities to which this standard is applicable.

1111. Accordingly, the Commission approves MOD-007-0 as mandatory and enforceable. In addition, the Commission directs the ERO to develop a modification through its Reliability Standards development process that expands the applicability of MOD-007-0 to include the entities that actually use CBM, such as LSEs and balancing authorities.