



A Winter Cold Snap May Raise Electric Reliability Concerns

As we move closer to the winter of 2018/2019, various press outlets are reporting that ISO-New England, Inc. (ISO), the regional electric grid operator, is feeling uncertain again as to fuel security. New England relies heavily on natural gas for power generation, but the pipelines get tight in the winter when both heating and electric demand are up. The region tries to make up the difference with oil and liquefied natural gas storage, but in extreme weather conditions, ensuring replenishment of those stocks can become complicated.

For the last few winters, ISO has relied on the Winter Reliability fuel program, which provided incentives to power plant owners to have sufficient fuel in storage onsite to meet their obligation to generate electricity when called upon to do so by the ISO. However, the Winter Reliability program was intended to be temporary, and after the winter of 2017/2018, it was replaced by other programs that are considered more market-oriented. It is unclear to OCC, however, whether the replacement programs will work as well as the expired Winter Reliability program, and, based on ISO's statements, it appears that the new programs may create more risks and uncertainties.

The replacement programs include the so-called pay-for-performance program effective June 2018, which provided additional incentives to power plant owners who step up to produce more electricity when other power plants do not meet their obligations to generate electricity. The power plants who do not meet their obligations at key times of need are financially penalized for their lack of production, with the penalty dollars accruing to those power plants that are able to answer the call with production. Additionally, the ISO is implementing a new program that will use a 21-day forecast that will allow power plant owners to procure fuel as needed to meet the forecast. For example, financial incentives will allow power plant owners to reserve rather than burn stored oil when natural gas is available. Typically, power plant owners store oil inventory in tanks with enough oil onsite to use to generate electricity for periods of up to seven days. In the event of a severe cold weather snap for a much longer duration, such as the one we had from December 26, 2017 thru January 6, 2018, the oil needs to be replenished on very cold days, which can be complicated by issues as ordinary as icy road conditions. Whether the new programs will create enough incentive for timely oil replenishment by power plant owners remains to be seen.

OCC is continuing to work with other stakeholders to improve winter electric reliability. A failure to be able to serve electric load during a cold snap would be an unacceptable and potentially disastrous event.



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