RTO Insider

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ISSN 2377-8016 : Volume 2015/Issue 2 January 13, 2015

Stakeholder Process Under Attack at FERC Hearing on PJM Financial Trades

By Rich Heidorn Jr.

WASHINGTON — The RTO stakeholder process came under fire last week as financial traders said it was being used to quash competition and a leading economist blamed it for slowing market reforms.

The setting was a Federal Energy Regulatory Commission technical conference, part of the commission's Section 206 inquiry into PJM's treatment of financial transactions (EL 14-37).

Section 206 Inquiry

FERC opened the 206 case in August, ruling that PJM may be improperly discriminating in its disparate treatment of virtual transactions. While incremental offers (INCs) and decrement bids (DECs) are charged uplift and subject to the financial transmission rights forfeiture rule, up-to-congestion bids (UTCs) are exempt from both.

UTC trading volumes have dropped by about 80% since Sept. 8 — the date from

Market Monitors Joe Bowring (PJM, left) and David Patton (MISO, ISO-NE and NYISO).

which FERC said any uplift ultimately assigned to UTCs will be applied.

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AEP Considering Sale of 8,000 MW in Ohio, Indiana

By Ted Caddell

American Electric Power has hired investment bank Goldman Sachs to investigate the sale of its merchant generation fleet in Ohio and Indiana, both coal- and natural gas -fired.

TheStreet, which first reported the news, said the plants — with a combined capacity of about 8,000 MW — could fetch $2.8 billion to $3.6 billion, based on a price of $350 to $450 per kilowatt. AEP officials confirmed hiring Goldman Sachs but said no decisions have been made.

Melissa McHenry, an AEP spokeswoman, identified the nine plants as:

- Gavin - 2,665 MW
- Cardinal Unit 1 – 595 MW
- Conesville Units 5 & 6 – 810 MW
- Waterford – 840 MW
- Darby – 507 MW
- Conesville Unit 4 – 339 MW
- Zimmer – 330 MW
- Stuart – 603 MW
- Lawrenceburg – 1,186 MW

All of the plants are in Ohio except for Law-

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Illinois Considering Carbon Tax, Cap-and-Trade to Save Exelon Nukes

By Ted Caddell

Exelon's Clinton nuclear plant.

Illinois officials last week offered state legislators a list of options for keeping Exelon's nuclear plants running — including a carbon tax and a cap-and-trade program — all of which will likely result in higher power prices for consumers.

The options came in a 269-page report issued by the Illinois Commerce Commission, the Illinois Power Agency, the Illinois Environmental Protection Agency and the Illinois Department of Commerce and Economic Opportunity. A state House of Representatives resolution tasked the agencies to come up with the report, and to include "potential market-based solutions to guard against premature closure of at

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PJM NEWS

PJM: Efficiency, Renewables Could Save Some Coal Plants under EPA Carbon Rule

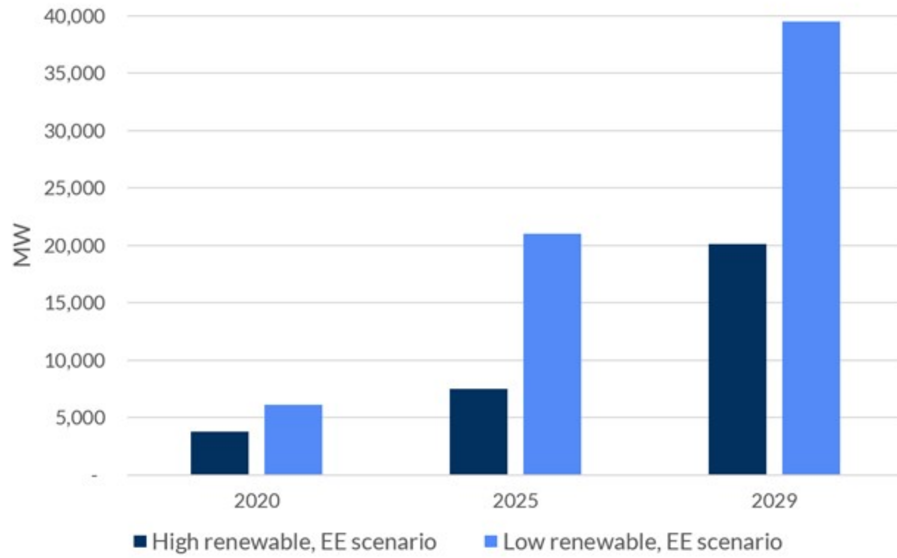
By Rich Heidorn Jr. and Suzanne Herel

Some coal-fired power plants at risk of retirement under the Environmental Protection Agency's proposed carbon emission rule could survive thanks to unlikely saviors: energy efficiency and renewable energy.

That is a surprising conclusion of a PJM economic and reliability analysis of the EPA's Clean Power Plan, which PJM officials outlined last week for the Transmission Expansion Advisory Committee.

PJM had presented preliminary results on the study, which was requested by the Organization of PJM States Inc. (OPSI), in November. (See *PJM: Regional Approach the Cheapest Way to Comply with EPA Carbon Rule*.)

The analysis included eight compliance scenarios requested by OPSI and seven proposed by PJM. Among the issues it examined was the impact of the carbon rule on generation retirements.



Steam turbine generating capacity at risk of retirement in megawatts. (Capacity with annual revenue requirements exceeding 0.5 of net CONE, based on least-cost new entrant. (Source: PJM Interconnection LLC)

The study forecast 20,000 MW of steam generation retirement by 2029 under the four high renewable/energy efficiency scenarios, doubling to about 40,000 for the four low renewable/energy efficiency scenarios.

Counter-Intuitive Result

"Although this seems counter-intuitive, under the proposed Clean Power Plan, more energy efficiency and renewable energy means lower CO_2 prices, which implies that the financial stress on higher emitting resources is reduced," PJM said. "In the extreme … it is possible to add enough energy efficiency and renewable energy so that re-dispatch is not needed since there will be sufficient zero-emitting resources to avoid re-dispatch."

The EPA said last week that it will finalize the carbon rule for existing generators, along with companion rules for new and modified power plants, by mid-summer. (See related story on the next page.)

The EPA's proposal for existing generators would set interim carbon emission goals beginning in 2020, with emissions rate targets declining over the following decade. During the 2020 and 2029 "glide path" to full compliance, states would be permitted to average emissions, allowing them to "bank" earlier emissions reductions to be used in later years or "borrow" reductions that must be repaid in later years.

Retirements of less efficient, high-emitting generators early in the transition would provide an immediate cut in CO_2 emissions, reducing the need for re-dispatch of more efficient, lower emitting sources. More efficient sources will face increasing pressure to retire as the emission limits decline and CO_2 prices increase.

Identifying At-Risk Units

PJM's study set a benchmark for retirement based on the net cost of new entry (net CONE) for a combustion turbine or natural gas combined-cycle plant, depending on which was cheaper under the scenario. (Due to the stricter emissions targets under the proposed EPA rule, PJM said combined-cycle plants are the cheapest supply source for meeting reliability targets in many of the simulations.)

Generators were considered at-risk for retirement if their annual revenue requirements exceeded the net-CONE benchmark (either 0.5 or 0.6 of net CONE).

The study found that although increased use of energy efficiency, renewables and nuclear power reduce energy market prices, they also reduce CO_2 prices, which means less need for re-dispatching from coal to natural gas generators.

Increased Operations Trumps Lower Prices

"Being able to operate economically for more hours is more beneficial to coal unit revenues than the reduction in energy market prices," PJM said.

Retirements of steam turbines — gas-, oil- and coal-fired resources whose prime mover is a steam turbine — would rise from less than 4,000 MW in 2020 to more than 20,000 in 2029 under the high renewable/energy efficiency scenarios.

Under the low renewable/energy efficiency scenario, retirements would rise from about 6,100 MW in 2020 to almost 40,000 in 2029.

The high renewable/energy efficiency scenarios assume achievement of at least 50% of the EPA's 23.3-GWh energy efficiency goal. The low renewable/energy efficiency scenarios project wind and solar power and energy efficiency based on historic growth rates, with energy efficiency of 9.2 GWh.

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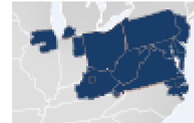

PJM: Efficiency, Renewables Could Save Some Coal Plants under EPA Carbon Rule

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PJM transmission planners will conduct reliability analyses on generators identified as "at-risk" in at least 50% of the scenarios evaluated to determine whether their closure would necessitate transmission upgrades or other actions. About 8,000 MW fell into that category in 2020, increasing to almost 40,000 in 2029.

"Through the course of January and early February we'll be trying to get a handle on what kinds of upgrades might be required," Paul McGlynn, general manager of system planning, told the TEAC.

Regional vs. State Compliance

PJM cautioned that the quantitative results of the study reflect many scenario assumptions, including fuel prices, electricity demand, retention of nuclear resources and whether compliance is done regionally or state by state.

"Given the uncertainty about future market conditions, the form of the final rule, and the form of state compliance plans, it is best to focus on the qualitative results, which show the direction of wholesale power prices, units 'at risk' for retirement, CO_2 prices and similar metrics," PJM said.

In 2020, for example, PJM projects state-by-state compliance would result in twice as many retirements as regional compliance under the high renewable/energy efficiency scenario and 3.5 times as many under the low renewable/energy efficiency scenario.

The study also found that state-by-state compliance would be almost 30% more expensive than a regional approach. A regional compliance plan would allow states to trade reductions among each other, giving PJM access to lower cost units for re-dispatch.

"Not only is it more cost effective to do regional compliance, but there's now fewer units at risk for retirement," PJM Chief Economist Paul Sotkiewicz explained. "There's a reliability message here."

IN CASE YOU MISSED IT ...

(ORIGINALLY PUBLISHED JAN. 8)

EPA Delays Power Plant Carbon Rules

By William Opalka

The Environmental Protection Agency will delay its three proposed carbon emission rules until mid-summer, as it coordinates their release to address new, existing and modified power plants during the same time frame.

The agency's final carbon emission standard for new power plants was to have been issued within one year of its publication in the Federal Register on Jan. 8, 2014. The EPA said that was impractical given the volume of public comments received and the overlap that will result from the three sets of rules for electric generators.

"There are cross-cutting topics that affect the standards for new-source, modified sources and for existing sources," Janet McCabe, acting assistant administrator for the Office of Air and Radiation, said at a press briefing Wednesday.

The rule for existing power plants, the Clean Power Plan, was proposed last June, setting up a deadline of June 2, 2015, for them to be finalized. However, the EPA extended the public comment period for 45 days in September, and in October it issued a Notice of Data Availability, indicating its willingness to consider a slower shift from coal to natural gas generation. (See *EPA Signals Flexibility on Interim Carbon Targets, Coal-Gas Shift*.)

McCabe said those changes, and the need to consider the more than 4 million comments received in response to all of the rules, prompted the delay. The comment period on the Clean Power Plan ended on Dec. 1, six weeks after the Oct. 16 deadline for comments on the proposed rules for modified and reconstructed power plants.

"We think these additional few weeks will give us the time we need to review the extensive public comments on all three proposals and finalize a suite of rules that takes into account all of these cross-cutting issues," McCabe said.

The EPA will also be starting a rulemaking process on a federal implementation plan for existing generators to guide states that are formalizing their response to the Clean Power Plan. That process is to begin soon with the aim to also issue the federal plan proposal in mid-summer.

McCabe said the EPA had been approached by states to see if a model rule was going to be proposed. The federal plan also would stand in place for states that balk at producing their own plans.

"EPA's preference is that states submit their own plan tailored to their specific needs," McCabe said.

Some observers say combining the three proposals may help them withstand legal challenges and attacks by Congress' Republican majority.

The plan for new generators essentially prevents new coal-fired generators that don't employ carbon capture and sequestration, an expensive and largely unproven technology. (See *EPA GHG Rule May Turn on Viability of Carbon Capture*.)

The plan for existing generators has raised concerns that it will lead to another wave of coal generator retirements in addition to those shuttering in response to the EPA's Mercury and Air Toxics Standards. (See *FERC to Hold Technical Conferences on EPA Clean Power Plan*.)

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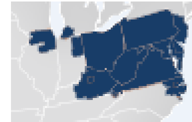


Further Study Delays PJM Planners' Artificial Island Decision

By Suzanne Herel

PJM planners won't be ready after all to recommend a stability fix for New Jersey's Artificial Island in time for the Board of Managers' regular meeting in February.

The winner of a contentious battle among four project applicants was expected to be announced at a special Jan. 25 meeting of the Transmission Expansion Advisory Committee.

But at the TEAC meeting last week, Paul McGlynn, general manager of system planning, said staff is working with consultants and industry experts to further study aspects of the proposals for the island, home to the Salem-Hope Creek nuclear complex.

"We have a consultant who's been looking at sub-synchronous resonance issues for us," he said, referring to a piece of Dominion Resources' plan to combine thyristor-controlled series compensation (TCSC) technology with static VAR compensators (SVCs) to ensure stability.

The model was roundly criticized by Dominion's competitors: LS Power, Transource and Public Service Electric & Gas.

PSE&G's sister company, PSEG Nuclear, which operates the nuclear plants, last month called on PJM's Board of Managers to reject using what it called unproven technology.

The company warned that such a system could result in damage to turbine generator shafts and widespread outages. (See *PSEG Nuclear Calls on PJM Board to Block 'Risky' Artificial Island Fix*.)

McGlynn said staff also is looking at the impact of installing fiber optic ground wire for shorter clearing times. That might reduce the size of the SVC, or supplant the need for one at all.

"We've actually got a lot of work going on," said Steve Herling, vice president of planning.

After the meeting, Herling said he expected to have a recommendation ready to present to the TEAC next month. Discussions are underway to call a special meeting of the Board of Managers in March.

All of the potential solutions involve new transmission lines connecting Artificial Island to Delaware. LS Power and Transource have proposed a southern crossing of the Delaware River. Dominion and PSE&G offered a northern route with an overhead crossing. McGlynn has said that either path is expected to face permitting challenges.

LS Power's proposal includes both overhead and submarine options for the river crossing, each of which would carry a binding cost cap of $146 million.

Transource has emphasized its 50-50 partnership with Pepco Holdings Inc. and said its submarine proposal will have the easiest time obtaining permitting.

Ronnie Bailey, manager of transmission planning for Dominion, stressed among his proposal's advantages a 36- to 48-month turnaround time.

PJM planners had recommended PSE&G's selection for the project but re-engaged the other three companies after being widely criticized this summer by environmentalists, New Jersey officials and spurned bidders. (See *PJM Puts the Brakes on Artificial Island Selection*.)

In an interview last week, Herling said none of the contestants had threatened a lawsuit, and that the delay was simply the result of PJM wanting to conduct a thorough review.

The project is PJM's first under the Federal Energy Regulatory Commission's Order 1000, which opens up transmission line projects to non-incumbent companies.

PJM to Try Again to Speed Interconnection Filings

PJM will seek stakeholders' input on ways to encourage interconnection customers to file their requests earlier, officials told the Planning Committee last week.

A more granular review of PJM's interconnection queue over the past 14 years indicates that about 80% of requests are for new generation projects, and that 15% of those are now in service. Proposals for upgrades had a 58% success rate, said David Egan, manager of interconnection projects.

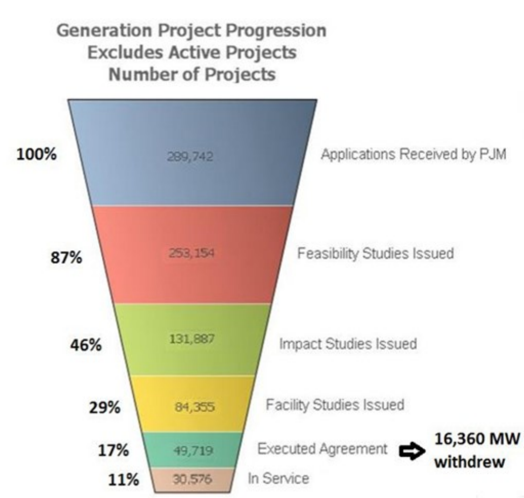
The review, which excluded active projects, looked at queues A through AA1 since 2000, when the queuing process began.

The review was sparked by last month's queue status update, which showed that PJM's new graduated queue-entry cost structure had failed to persuade developers to file applications earlier. (See *PJM: Interconnection Customers Still Procrastinating*.)

Under the new structure, the deposit for applications filed in the first four months was set at $10,000; for the fifth month it was set at $20,000; and for the last month, $30,000. Despite the cost increases, most developers waited until the last days to file, leading to an uneven work load for project managers.

"We're not jumping to any immediate changes but will be coming back with further discussion," said Steve Herling, vice president of planning. "We'll be coming up with a problem statement. We now have a much more complete picture of these queues."

The 2,394 project applications in the queues represent 289,742 MW, according to Egan. Of those, 30,546 MW (11%) are in-service and 16,360 MW were withdrawn.



Interconnection Queues A through AA1 progression. (Source: PJM)

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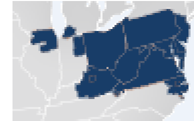
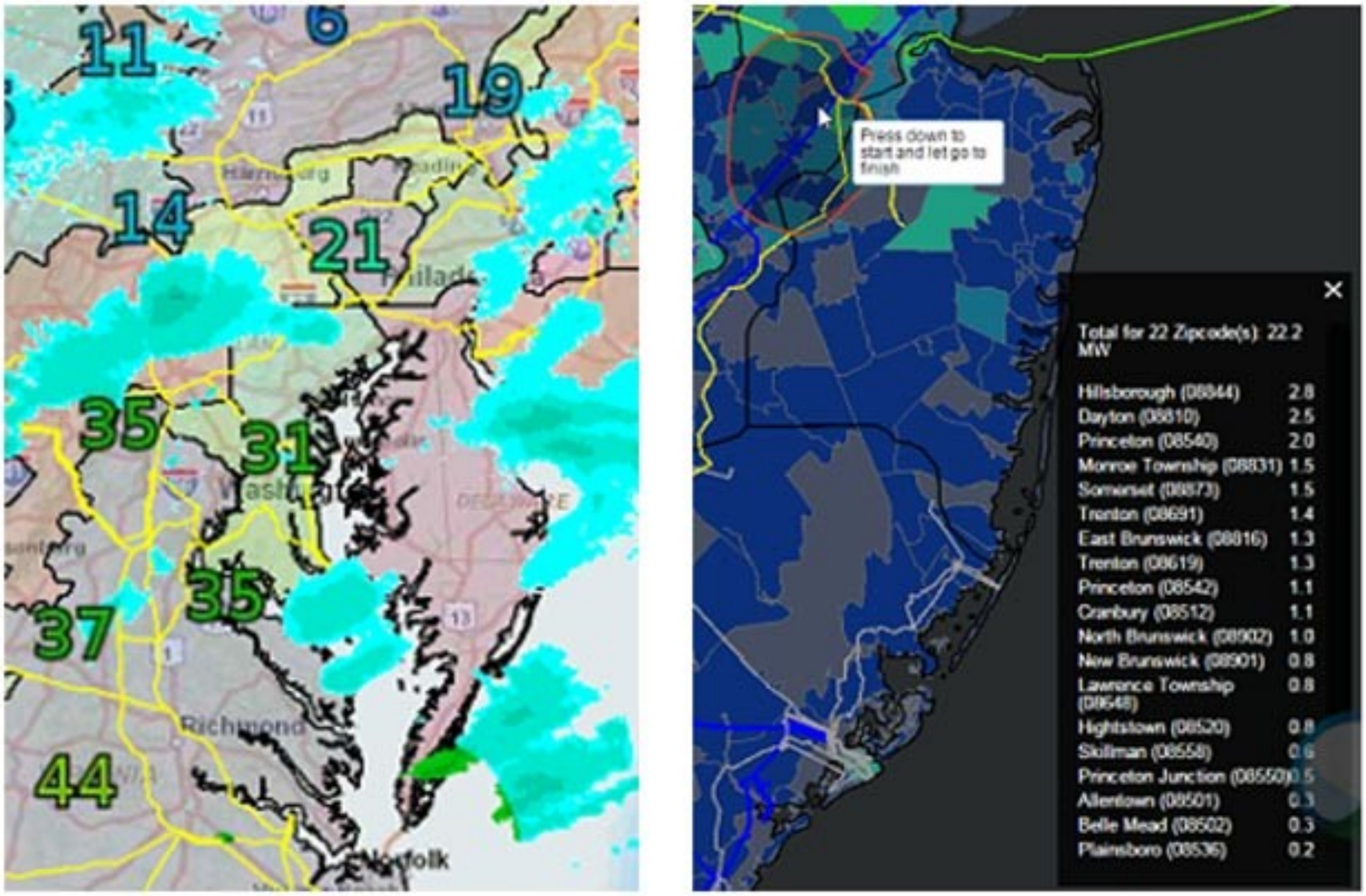




PJM's new Dispatch Interactive Map Application (DIMA) is designed to improve dispatchers' situational awareness by providing graphical presentations of existing data. The screenshot on the left shows weather radar and temperatures. The image on the right identifies 22 MW of load within the red circle. PJM expects to add new features to the application later this year. (Source: PJM Interconnection LLC)

Generator Testing Slowed by Warm December

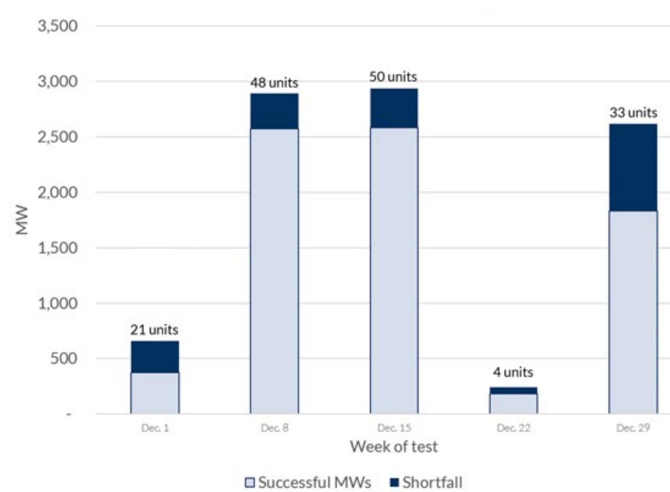
PJM generation owners conducted winter preparation tests of 156 infrequently used power plants between Dec. 5 and Jan. 2, cranking up 7,549 of a possible 9,349 MW for a success rate of 81%.

Units failed to start due to problems with fuel-handling systems and emission systems, as well as oil leaks, tube leaks and cranking diesel generator failures, PJM officials told the Operating Committee last week. The tests were considered successful if the units were able to generate installed capacity levels, even if it took two or three attempts to get them running.

Warm weather in December forced numerous test cancellations and pushed the testing into January. An additional 18 units (980 MW) were scheduled for testing last week.

The testing will result in more than $3 million in make-whole payments, officials said.

Operators of 91% of generating units — representing 98% of installed capacity — reported to PJM that they had completed their own cold weather checklist or the one in PJM Manual 14D.



Winter generation testing. (Source: PJM Interconnection LLC)

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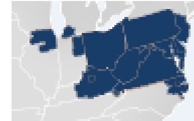


PJM Market Implementation Committee Briefs

Illinois Muni Seeks 2nd Waiver as MIC Considers Rule Change

The Market Implementation Committee will review modeling practices that PJM said may be shortchanging loads with transmission agreements that pre-date the RTO's capacity market.

The MIC last week approved an issue charge proposed by Stu Bresler, vice president of market operations.

Bresler said the issue arose last year after a PJM member in Commonwealth Edison's locational deliverability area (LDA) sought a waiver of PJM's Reliability Assurance Agreement before last May's base residual auction.

Bresler was referring to the Illinois Municipal Electric Agency, which won a waiver from the Federal Energy Regulatory Commission regarding its means of serving the Naperville, Ill., portion of its load.

Last week, IMEA filed a second waiver request for May's 2018/19 BRA.

"The fundamental problem is that when a PJM zone is identified as a potentially constrained LDA (and therefore separately modeled with its own [variable resource requirement] curve), internal resource requirements are triggered that do not recognize or give credit for the capacity transfer capability rights of [load serving entities] that have historic, long-term, firm transmission rights to serve their network loads with external resources," IMEA wrote in its request (ER15-834).

The MIC approved a problem statement on the issue in December. (See *PJM MIC OKs Capacity Transfer Rights Inquiry*.)

Market Monitor Joe Bowring questioned the impact of the rule change being considered by PJM. "It's a broad issue because it creates the possibility of others requesting the same thing," he said.

Bresler, however, said potential changes would affect an "extremely small population of market participants who find themselves in this situation."

MIC to Work Synch Reserve Payments Inquiry

The MIC will hold special meetings to consider the Market Monitor's effort to change compensation for Tier 1 synchronized reserves.

PJM's Lisa Morelli suggested the approach after briefing the MIC last week about a Jan. 5 education session on the issue. No members objected to her recommendation.

Tier 1 synchronized reserves — all on-line resources following economic dispatch and able to ramp up at PJM's request — are paid the Tier 2 synchronized reserve market clearing price whenever the non-synchronized reserve price is more than zero. Bowring said it's wasteful to pay Tier 1 the same price as Tier 2, because only Tier 2 are subject to penalties for non-performance. (See *Monitor: Cut Pay for Tier 1 Synchronized Reserves*.)

PJM Posts MISO Price Predictions Before CTS Vote

Last week PJM, which will seek stakeholder approval next month for an interchange trading product with MISO, released statistics on the accuracy of its predicted prices at the MISO interface.

The statistics were included in an MIC briefing on the proposed Coordinated Transaction Scheduling (CTS) product, which is similar to one PJM launched Nov. 4 with NYISO.

Under CTS, traders would be able to submit "price differential" bids that would clear when the price difference between MISO and PJM exceeded a threshold set by the bidder.

The product would use price forecasts generated by PJM's Intermediate Term Security Constrained Economic Dispatch engine (IT SCED). From January through November 2014, IT SCED successfully predicted the MISO price within +/-$5/MWh about 60% of the time (see chart below).

CTS is intended to reduce uneconomic flows between PJM and its western neighbor. PJM says almost half of the transactions from PJM into MISO occur when prices are higher in PJM.

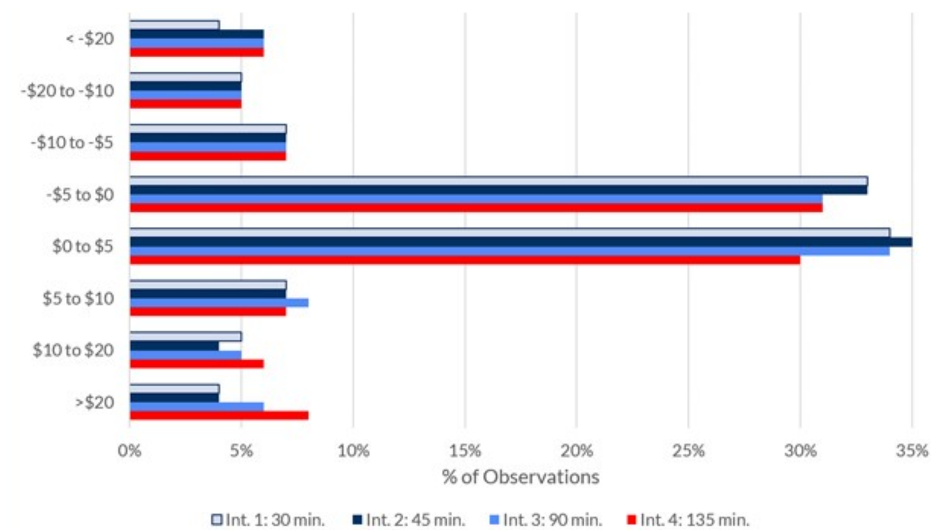
Intermittent Resources Panel Wants to Stick Around

The Intermittent Resources Task Force, which completed its last assignment in October, is proposing a charter revision that would turn it into a standing subcommittee.

Among other duties, the subcommittee would monitor the participation of intermittent resources in the energy, capacity and ancillary services markets, and recommend improvements to PJM systems and procedures.

Like the task force, which was created in 2008, the subcommittee would report to the MIC. It would conduct business primarily through quarterly conference calls.

The MIC will be asked to vote on the new charter next month.



IT SCED Look-Ahead Price Accuracy (MISO interface January-November 2014. IT SCED provides four look-ahead solution intervals over a two-hour period, from Interval 4 (135 minutes before flow) to Interval 1 (30 minutes before flow). (Source: PJM Interconnection LLC)

ISO-NE NEWS

Northeast Utilities Rebranding as Eversource Energy

By William Opalka

Northeast Utilities, the holding company that operates six electric and gas distribution companies in three New England states, has announced a top-to-bottom rebranding by changing its name to Eversource Energy.

The corporate parent, with headquarters in Boston and Hartford, Conn., will use the name for itself and each of its units: NSTAR Electric, NSTAR Gas and Western Massachusetts Electric Co. in Massachusetts; Public Service Company of New Hampshire (PSNH); and Connecticut Light and Power and Yankee Gas Services in Connecticut.

The new name becomes effective on Feb. 2 and the company has requested its ticker on the New York Stock Exchange be changed to ES on Feb. 19.

"Energy is what brings us all together, and Eversource reflects the one-company focus we have been driving for the last few years," Northeast Utilities CEO Tom May said in a statement. "Consolidating our brand was the obvious next step for us as we continually strive to improve energy delivery and customer service to our 3.6 million electricity and natural gas customers across the region."

The Northeast Utilities name dates back to 1965, when CL&P, Hartford Electric Light and WMECo merged. NU acquired PSNH in 1992. According to the PSNH website, that company became the first investor-owned utility to go bankrupt since the Great Depression. PSNH spent the 1980s fending off financial crises precipitated by cost overruns, delays and opposition related to the Seabrook nuclear plant.

The biggest step in the makeover occurred in 2012 with the merger of Hartford-based NU with NSTAR, of Boston. The proposed pairing was announced in late 2010. During regulatory review, the new company pledged to maintain dual headquarters in its host cities. NU, with about 2.4 million customers, was twice the size of NSTAR with its 1.2 million customers.

Included in the merger was a negotiated settlement in Massachusetts for NSTAR to purchase electricity from the proposed Cape Wind project. NSTAR had committed to buy 27.5% of the 468-MW project's output under a 15-year power purchase agreement. That project is now imperiled as NU and National Grid, another New England utility with a PPA with Cape Wind, have terminated the agreements due to the wind farm's failure to meet contract benchmarks.

(See related story, *Terminated PPA Imperils First Offshore Wind Project*, p. 8.)

At the time of the merger announcement, the two companies were planning a joint venture to import Canadian hydropower into New England. The $1.4 billion Northern Pass transmission line in northern New Hampshire is now a wholly owned subsidiary of NU Transmission Ventures. The 186-mile line would bring 1,200 MW of electricity produced by Hydro-Quebec in Canada into the New England power market.

Although the project would use 147 miles of existing rights-of-way, it is mired in controversy because of the need to cross the White Mountain National Forest and its visual impact on other federal and state nature preserves.

Northern Pass requires a Presidential Permit from the Department of Energy because it crosses an international border.

The merger was almost derailed by criticism over CL&P's response to Hurricane Irene and Superstorm Sandy in 2011. The Connecticut Public Utilities Regulatory Authority penalized the company by reducing its allowed return on equity by 0.15% for a year.

The financial markets seem to have shrugged off the controversies. NU stock ended 2014 at $53.52, up about 26% for the year above its 2013 close of $42.39.

FERC Approves New England Demand Response Integration

The Federal Energy Regulatory Commission last week approved rule changes allowing New England grid operators to fully integrate demand response into their wholesale markets, including their reserve markets (ER15-257).

The changes were proposed by ISO-NE and the New England Power Pool to bring their rules into conformance with Order 745.

Some changes became effective on Jan. 12 in advance of the ninth Forward Capacity Auction, scheduled for Feb.2. Others will take hold on June 1, 2017.

FERC turned aside objections from power generators who want any rulings related to Order 745 deferred until a successful challenge to FERC jurisdiction over DR in a federal appeals court is resolved.

The New England Power Generators Association has argued that the D.C. Circuit Court of Appeals ruling in *Electric Power Supply Association v. FERC* says that FERC lacks jurisdiction to regulate rates for supply-side demand response resources and could extend to the forward capacity and forward reserve markets.

"We find it appropriate at this time to proceed with these market enhancements until further action is taken," FERC wrote.

In 2011, ISO-NE and NEPOOL proposed a two-stage process to incorporate DR into the wholesale markets. Stage one defined an initial transition period that began in June 2012. Stage two rules were proposed in this docket in October 2014.

ISO-NE currently models a single DR asset that can both reduce its load and inject energy into the electric grid as two separate assets, according to FERC. ISO-NE and NEPOOL say the changes will allow DR to provide operating reserves as other resources without altering the existing co-optimized energy and real-time operating reserves market. "These changes include revisions to demand response resources' energy market offer parameters to allow such resources to provide 10-minute and/or 30-minute reserves," FERC said.

NEPGA also said the revisions discriminate against generation resources in the compensation of DR for avoided line losses.

FERC rejected that argument, saying that "under a common market structure, all resources will have comparable obligations and be paid the comparable price for delivery."

ISO-NE NEWS

Terminated PPA Imperils Cape Wind Offshore Project

By William Opalka

Visual simulation of the Cape Wind project from Craigville Beach, 6.5 miles away. (Source: Cape Wind Associates)

Two New England utilities that had power purchase agreements with the Cape Wind Associates' offshore project have terminated the contracts, leaving the project's future in doubt.

National Grid and NSTAR, a unit of Northeast Utilities, said the 468-MW project off the coast of Cape Cod failed to meet deadlines to secure financing and begin construction by Dec. 31. The developer of the $2.6 billion project could have extended the deadline if it had put up financial collateral, the utilities said. Both utilities terminated their PPAs with the developer on Jan. 6.

National Grid had a 2010 agreement for 50% of the project's output, while NSTAR was contracted for 27.5% as part of its merger settlement in 2012 with Northeast Utilities. Both PPAs were for 15 years.

"We do not regard these PPA terminations as valid due to the *force majeure* provision of the contracts that extends the milestone dates," Cape Wind said in a statement. The developer cites delays caused by "relentless litigation" by project opponents as the primary reason it has been unable to meet the deadline, a contingency it says is included in the utility contracts.

National Grid said that it "is disappointed that Cape Wind has been unable to meet its commitments under the contract, resulting in yesterday's termination of the power purchase agreement."

The Alliance to Protect Nantucket Sound, which has been fighting the project for 14 years, hailed the contracts' termination.

"The decision by NSTAR and National Grid to end their contracts with Cape Wind is a fatal or near-fatal blow to this expensive and outdated project. It's very bad news for Cape Wind, but very good news for Massachusetts ratepayers, who will save billions of dollars in electric bills," it said.

The Alliance has on its board fossil fuel magnate Bill Koch. By Cape Wind's count, the alliance has initiated more than 20 lawsuits seeking to stop Cape Wind. None, so far, have been successful.

The Interior Department's Bureau of Ocean Energy Management issued a commercial lease in 2010 for the project, which the alliance now says should be revoked.

Opponents' efforts to block the project based on its above-market power prices have also failed. The NSTAR PPA established a base price equal to $187/MWh.

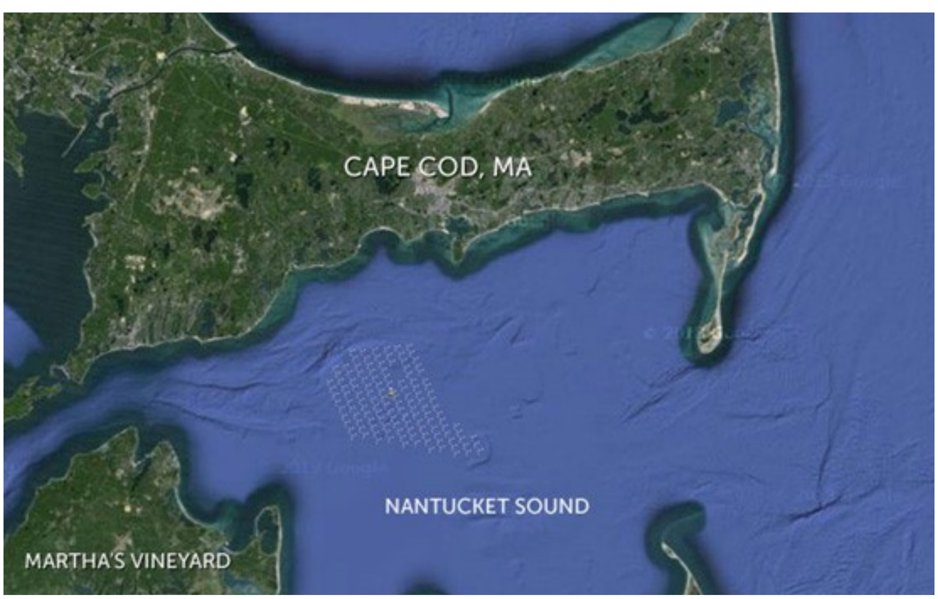
Even before the latest round of bad news, Cape Wind seemed to have lost its position as the first offshore wind development on the East Coast.

Deepwater Wind in Rhode Island has assumed the lead, promising "steel in the water" by this summer.

Its 30-MW Block Island Wind Farm is to be located about three miles off the coast of Block Island, R.I., and is fully permitted. The Block Island project has a PPA with National Grid that includes a fixed price of 24.4 cents/kWh with an annual 3.5% escalator.

The pilot project is a precursor of the planned 1,000-MW Deepwater Wind Energy Center, located off the coasts of Massachusetts and Rhode Island.

Last year, Deepwater Wind signed contracts with Alstom as its turbine supplier and long-term maintenance and service provider.



Location of the project. (Source: Cape Wind Associates)

MISO NEWS

Duke to Make First Utility-Scale Solar Power Purchase in Indiana

By Chris O'Malley

Duke Energy plans to make its first substantial purchase of solar power in Indiana, giving customers the option to buy "locally sourced" solar energy credits to help cover the cost.

The utility, with more than 800,000 customers in 69 counties, asked the Indiana Utility Regulatory Commission on Dec. 29 (Docket No. 44578) for permission to acquire a total of 20 MW of power from four solar farms: 5 MW each from Geres Energy, McDonald Solar, Pastime Farm and Sullivan Solar.

The sites are under construction, or soon will be, in Clay, Howard and Sullivan Counties. They're set to go on line by the end of 2016.

The 20 MW of solar power is miniscule for a utility with more than 7,500 MW of mostly coal-based generating capacity in Indiana. But it amounts to the first utility-scale solar commitment for Duke in Indiana, spokesman Lew Middleton said.

Beyond Net Metering

Virtually all Indiana-generated solar power entering Duke's system is currently on a net-metering basis. According to the IURC's 2014 net metering report, Duke Indiana had 241 customers with their own solar panels that generated 1,458 kW in 2013. That year Indiana ranked 19th in the nation for photovoltaic solar deployment, with only about 88 MW installed, according to the Solar Industry Association.

The proceeds from the sale of renewable energy credits (RECs) would be applied toward the ratepayers' share of the cost to buy energy from the solar farms.

Middleton said it's too early to say how much it will cost customers to buy the solar renewable energy credits.

A REC is a tradable instrument that represents the environmental attributes of electricity generated from renewable energy. The credits are distinct from the electricity commodity, allowing them and the actual electricity to be traded separately, Duke said.

Customers would be able to buy the solar RECs through an expansion of Duke's GoGreen program. Currently, that program allows customers to buy at a premium blocks of wind-generated power, for a minimum of $1.80 a month.

Since 2006, customers opting to participate in the program have supported 43 MWh of wind energy, the utility says. About 1,322 customers — or less than 1% of Duke's Indiana customer base — participate in GoGreen.

But in its filing with the IURC, Duke said a number of customers have expressed interest in locally sited renewable projects, as opposed to out-of-state RECs.

It also touted the plan as diversifying its generation portfolio and fostering economic development.

Indiana's nascent photovoltaic deployment got a boost in 2013, when a 12.5-MW solar farm was constructed at the entrance to Indianapolis International Airport. Subsequently, another 10 MW of panels were added, making it the world's largest airport solar farm. Indianapolis Power & Light purchases the power under a feed-in tariff.

More Solar

Under Duke Indiana's 2013 Integrated Resource Plan "blended approach" scenario, the utility envisions potentially 2,000 MW of nameplate wind capacity and 330 MW of solar by 2033.

The Charlotte, N.C.-based utility notes that solar is the least-expensive renewable fuel source and typically amounts to more reliable capacity during summer peaking conditions than wind.

Much of Duke's renewable activity has been focused at its Duke Energy Renewables unit, an arm of its commercial division. DER owns 150 MW of capacity at 21 solar farms. It also owns or has a management role in 15 wind farms totaling 1,800 MW in 12 states.

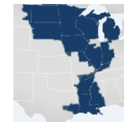
Solar power remains a tiny but growing portion of the energy mix in the Midwest. In the MISO region, renewables comprise about 12% of generation, and most of that consists of 13,000 MW of wind generation.

The price to install photovoltaic systems has fallen more than 34% since 2010, according to the Solar Industry Association. That's piqued interest in solar even in Midwestern states such as Wisconsin, where solar is just one-tenth of 1% of the state's installed generating capacity.

Yet several Wisconsin utilities last year, including Milwaukee-based We Energies, proposed to increase fixed costs customers pay on monthly bills and reduce how much they pay customers for their own solar generation fed back to the grid.

Utilities argue they need more revenue to cover their fixed costs as customers generate more of their own power and reduce consumption through energy efficiency efforts.

MISO NEWS



MISO TOs Can Collect RTO Membership Adder — Once Base ROE is Found Just

By Chris O'Malley

The Federal Energy Regulatory Commission has accepted a request by MISO transmission owners to implement a 50-basis-point adder as an incentive for RTO membership.

But the commission suspended the adder (ER15-358) from being applied until TOs demonstrate that their base return on equity is reasonable based on an updated discount cash flow analysis. The resulting ROE, including the adder, must be within the 7.03% to 11.74% "zone of reasonableness" the commission set in June in a case involving New England TOs.

Last fall, MISO industrial customers filed a complaint contending that the TOs' current base return on equity — 12.38% except for American Transmission Co. — is too high (EL14-12).

The industrials argued the base ROE for TOs should not exceed 9.15%, citing changes in financial markets. The lower rate would reduce transmission rates by $327 million, industrials say.

The base ROE case is now bound for a prehearing conference, after settlement talks broke down in December. (See *ROE Talks Between MISO Industrials and TOs Collapse*.)

TOs filed for the adder request on Nov. 6, in what industrials countered was an attempt to claw back some of the revenue TOs might lose if unsuccessful in the base ROE challenge.

Industrials have argued that TOs don't need an incentive to remain in MISO and that granting the adder would not benefit the reliability, coordination or operation of transmission facilities.

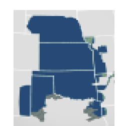
In its ruling, FERC said industrials and other opponents of the adder failed to provide evidence for that argument.

"We reiterate that the basis for the incentive adder is a recognition of the benefits that flow from membership in an RTO, ISO or other commission-approved transmission organization, and that continuing membership is generally voluntary," FERC said.

The MISO industrial customers include the Illinois Industrial Energy Consumers, Indiana Industrial Energy Consumers, Minnesota Large Industrial Group and Wisconsin Industrial Energy Group.

The TOs consist of 24 companies, including Ameren, ATC, Entergy, Indianapolis Power & Light and Northern States Power.

SPP NEWS



SPP Seeks to Bolster Market-Abuse Detection

By Chris O'Malley

SPP is seeking Federal Energy Regulatory Commission approval for a revised Tariff that the RTO says will more accurately screen generators for market power abuses in the form of uneconomic production.

The revised Tariff (ER15-788) is in response to FERC's September 2013 finding that SPP lacked an automatic screen "to identify a broader range of resources that could be engaged in uneconomic production to cause or exacerbate a constraint."

SPP has spent the last year updating its Tariff. Last March, the RTO transitioned from a real-time energy imbalance service market to the integrated marketplace design, which brought day-ahead and real-time energy and operating reserve markets.

Generators can manipulate the market by producing enough power to overload nearby transmission constraints, SPP said.

Under that scenario, the LMP on one side of the constraint could fall while prices on the relieving side of the constraint rise. Thus, a market participant could receive an uplift payment because of a low LMP on one side of the constraint — and receive higher energy payments for resources it owns on the other side of the constraint, SPP explained.

More Scrutiny

"SPP's current Tariff language does not include provisions for identifying when the LMP is low enough for the relevant [generating] resource to be deemed uneconomic," SPP told the commission.

In addition, its Tariff lacks a provision distinguishing offer parameters that properly represent the resource's physical capability from those that are unreasonably inflexible, SPP said.

Among the proposed remedies, the new Tariff includes language that would permit SPP's Market Monitor to deem a resource uneconomic if the LMP at the generator's settlement location falls below 50% of the applicable "energy offer curve reference level." SPP said the same threshold is utilized for identification of uneconomic production in the MISO energy market.

SPP's revised Tariff also would compare a generator's submitted parameters to reference levels developed by the Market Monitor. It would distinguish small fluctuations in parameters from those "that are intentionally unrealistic."

No Sign of Widespread Abuse

The RTO's most recent State of the Market Report states that there were a "small number" of periods when uneconomic production was identified.

SPP's Market Monitor also had an eye out for abuses such as physical withholding and economic withholding. While a number of concerns were raised, "there is little evidence of any market power abuse," the Monitor said.

The State of the Market Report was for the year 2013, prior to SPP's transition to the integrated marketplace.

COMPANY BRIEFS

Duke's Plan to Store Ash in Clay Pits has Counties Worried

Duke Energy is facing opposition to plans to dispose of coal ash in abandoned clay pits in two North Carolina counties. Commissioners in Chatham County passed a resolution against the disposal plan in December, and Lee County commissioners did the same thing last week.

Duke, which has committed to cleaning up coal ash dumps and ponds at four retired generating stations within five years, says storing the ash in the abandoned surface mines is an environmentally responsible and safe plan. It says the landfills would be lined and capped. "This is a very industry-tested, safe application of how to dispose of this material," said Duke spokesman Jeff Brooks.

Environmentalists are skeptical. "It's not a matter of 'if' it will leak; it's a matter of 'when,'" said Therese Vick of the Blue Ridge Environmental Defense League.

More: *Fayetteville Observer*

FirstEnergy's Davis-Besse Nuke Generates $1 Billion for Ohio

The Davis-Besse nuclear power plant generates about $1 billion annually for the Ohio economy, according to a study by the Nuclear Energy Institute.

Richard Myers, the NEI's vice president for policy development, said FirstEnergy commissioned the organization to produce the report in anticipation of using the information when it next goes before the Public Utilities Commission of Ohio for a long-term rate plan.

"This study confirms that Davis-Besse greatly strengthens the local, regional and state economies through job creation, tax payments, and direct and secondary spending," Myers said.

More: *Nuclear Energy Institute*

Wyoming, Colorado Companies Merge Uranium Mining Operations

Two western uranium miners are merging operations, spurred by a sluggish market for yellowcake uranium, which is refined into nuclear fuel.

Uranerz Energy, of Casper, Wyo., is merging with Denver's Energy Fuels Inc. Uranerz shareholders will control 55% of the new company, which will adopt the Energy Fuels name.

Uranerz operates a mine in northeast Wyoming in which the uranium is extracted by "*in situ* leaching," a process in which water is injected into rock and then pumped to the surface where the uranium is separated from the liquid. Energy Fuels operates a mine in Utah that employs conventional mining of uranium ore.

More: *Billings Gazette*

MDU Resources Group Names New CEO

Nicole Kivisto is the new president and CEO of MDU Resources Group, the company that owns Montana-Dakota Utilities, Great Plains Natural Gas, Cascade Natural Gas and Intermountain Gas. Together, the companies serve 1 million electric and natural gas customers in Washington, Oregon, Idaho, Montana, Wyoming, Minnesota, North Dakota and South Dakota.

A native of North Dakota, Kivisto replaces K. Frank Morehouse, who resigned.

More: *Rock Hill Herald*

Minnesota Wind Farm Owners File for Bankruptcy

The owners of two small wind farms in Minnesota have filed for bankruptcy protection, putting the investments of a consortium of 360 farmers at risk.

Minwind Energy said expensive repair costs and a paperwork error that leaves them open to a possible federal fine of $1.9 million mean it no longer has enough money to run the wind farms.

The farms have 11 turbines, went online in 2002 and 2004, and were profitable until 2012. Most of the facilities' energy is sold to Alliant Energy and Xcel Energy.

More: *Star Tribune*

Entergy Spending $187 Million On Lake Charles Tx Project

Entergy Gulf States Louisiana has filed with the Louisiana Public Service Commission to build a transmission line and two substations to bolster service reliability in the Lake Charles area.

The 25-mile line is designed to supply an estimated 500 MW of load growth in the area in the next few years. Another 500 MW of load could develop in the near future, Entergy officials said. The company said construction would begin in 2016 and be completed in 2018.

More: *The New Orleans Advocate*

Duke, Dominion Set Records During Cold Wave Last Week

Duke Energy Progress, the electric utility serving customers in parts of North Carolina and South Carolina, set a record for winter power use during last Thursday's frigid temperatures.

The new peak of 14,473 MW was set for the hour ending 8 a.m. The previous record was 14,190 MW set last Jan. 7, during the Polar Vortex. Duke asked customers to conserve when temperatures began to plunge. By 8 a.m., the temperature in Charlotte, N.C., dipped to 8 degrees Fahrenheit.

Dominion Virginia Power's 2.1 million customers also set a new winter peak during last week's cold snap.

The utility's load climbed to 19,870 MW at about 8 a.m. Wednesday. That eclipsed the previous record of 19,785 MW set on Jan. 30 of last year.

More: *News & Observer*; *Associated Press*

Hawaiian Electric Shareholders to Vote on Acquisition by NextEra

Shareholders of Hawaiian Electric Industries will vote this spring on NextEra Energy's $4.3 billion offer for subsidiary utility Hawaiian Electric.

The acquisition also needs the approval of the Hawaii Public Utilities Commission. The companies say they expect to close the deal by the end of this year. The merger was announced late last year.

More: *Pacific Business News*

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COMPANY BRIEFS

Continued from page 11

Clean Line Facing More Opposition To Illinois Transmission Line

Clean Line Energy's Grain Belt Express, a proposed 750-mile direct-current transmission line designed to deliver wind energy from Kansas to markets east, is facing mounting opposition in Illinois.

A public meeting on the plan in Jacksonville, Ill., last week was attended not only by landowners whose property the 600-kV line could cross, but activists from three other states with experience in fighting Clean Line projects. A group calling itself Block GBE Illinois is forming to help coordinate opposition.

A company spokesman said Clean Line was committed to an "open, transparent process that keeps landowners, the public, elected officials, community leaders and the media informed about all facets of the project's planning and construction process."

More: *Jacksonville Journal Courier*

-- Compiled by Ted Caddell

FEDERAL BRIEFS

Canadian Co., Oak Ridge Lab Working on Molten Salt Reactor

Terrestrial Energy said last week it is working with Oak Ridge National Laboratory to advance a molten salt reactor from the design stage to the blueprint stage.

Molten salt reactors, or MSRs, are advanced breeder reactors that typically use a fluoride salt mixture as the coolant. They run at higher temperatures then water-cooled reactors. Terrestrial teamed with Oak Ridge in part because the lab ran a MSR prototype from 1965 to 1969. Terrestrial said it sees its design being used in modular reactors, from 80 MW to 600 MW. It said it expects to have the blueprints done by late 2016.

More: *Nuclear Street*

PacifiCorp Energy Fined for Bird Deaths at Wind Farms

The Department of Justice fined PacifiCorp Energy $2.5 million related to a spate of bird deaths at two of the company's Wyoming wind farms.

The department said 38 golden eagles and 336 other protected birds have died by blade strikes since 2009 at the company's Seven Mile Hill and Glenrock/Rolling Hills projects in Wyoming. The two projects have 237 turbines.

The government said PacifiCorp failed to make all reasonable efforts to build the projects to avoid the risk of avian deaths, despite guidance from the Fish and Wildlife Service. As part of the settlement, PacifiCorp agreed to develop and implement a plan to prevent further deaths at its Wyoming wind farms.

More: *The Denver Post*

STB Orders BNSF Railway to Come Up with Emergency Coal Plan

The Surface Transportation Board ordered rail giant BNSF Railway to come up with a plan to keep Midwest power plants supplied with coal this winter. Coal shippers have faced increased competition for rail capacity from crude oil and grain producers.

Citing supply problems at several Midwest power companies, the regulatory agency said its main concern is the railroad's ability to respond "in the event that unanticipated circumstances cause one or more regionally significant generating stations to reach critical stockpile levels."

BNSF had resisted releasing its supply plans, but it said Wednesday that it would comply. More than 50% of electricity in the Midwest comes from coal-fired plants. Several generating companies instituted conservation measures leading up to the winter to try stretch their coal supplies.

More: *Star Tribune*

NRC Taking Comments on Vermont Yankee Closing

Entergy's plan for decommissioning the Vermont Yankee nuclear plant is open for public comment. The plant shut down for good on Dec. 29.

Entergy filed a Post Shutdown Decommissioning Activities Report, which puts the total decommissioning cost at $1.24 billion. The Nuclear Regulatory Commission is accepting public comments on the plan until March 23. Comments can be submitted online at www.regulations.gov, using Docket No. 50-271.

Company Hired to Dismantle Zion Station Running Out of Money

EnergySolutions, a Utah-based company dismantling Exelon's closed Zion nuclear generating station, says it is running short of funds to complete the task.

The company told Exelon that the project, paid for with $800 million collected from ratepayers over decades, will run out of money before all the buildings on the site are taken apart. According to the company's agreement with Exelon, EnergySolutions would cover the projected shortfall. Zion was deactivated in 1998.

The arrangement was the first time the Nuclear Regulatory Commission allowed a plant owner to transfer a reactor's operating license and liabilities to a third-party company for decommissioning. EnergySolutions owns a radioactive waste disposal facility in Clive, Utah.

More: *Chicago Tribune* (subscription required)

Continued on page 13

FEDERAL BRIEFS

Continued from page 12

Initial Filings Made with FERC For New Nexus Pipeline

Nexus Gas Transmission, DTE Energy and Spectra Energy Partners have filed plans with the Federal Energy Regulatory Commission to build a 250-mile pipeline to transport natural gas from the Utica Shale formation to northwest Ohio.

The $2 billion Nexus Pipeline would run through 11 counties in Ohio connecting the Utica fields in the east of the state to the northwest. From there it will run into Michigan and connect with an existing pipeline in Ontario. The 42-inch diameter pipeline would deliver 1.5 billion cubic feet of gas a day.

More: *Akron Beacon Journal*

BOEM Being Sued over Refusing to Disclose Extent of Gulf Fracking

The Center for Biological Diversity filed suit against the Bureau of Ocean Energy Management, alleging that the agency refuses to comply with a public records request concerning the scope of hydraulic fracturing in the Gulf of Mexico.

The group said it has requested permits, documents and emails relating to approved drilling operations, but that the BOEM has refused all requests.

More: *Grist*

Department of Energy Challenging $54 Million New Mexico Fine

The U.S. Department of Energy is contesting a $54 million fine levied by New Mexico for safety and environmental violations at the Waste Isolation Pilot Plant and Los Alamos National Laboratory.

Federal officials are seeking to have the fine reduced or stricken altogether. The New Mexico Environment Department announced the fines last month. The violations resulted in the pilot plant being closed down.

More: *Washington Times*

-- Compiled by Ted Caddell

STATE BRIEFS

ILLINOIS

Legislators May Be Waiting for Quinn to Leave Before Bill is Sent

Quinn

Commonwealth Edison and Ameren stand to win an important victory in their attempts to get continued authorization to charge customers for smart grid improvements.

The state legislature easily passed a bill in December allowing the utilities to continue smart grid improvements. But legislative leaders are possibly waiting for Gov. Pat Quinn to leave office before they send the bill to be signed. Quinn, a Democrat who has made no secret of his thorny relationship with utility companies, vetoed a 2013 smart grid bill.

More: *Chicago Tribune* (subscription required)

INDIANA

Pence Suggests Utilities Set Own Energy Efficiency Goals

Gov. Mike Pence is proposing a policy that would allow electric utilities to determine their own energy efficiency goals, replacing mandated targets that the state Senate dismantled last year.

Pence

Pence's proposal, which would require utilities to file energy efficiency plans every three years, would replace a 2009 law that set a 2% reduction in electricity use by 2019. That act was undone last year under a bill that became law without Pence's signature.

More: *Indiana Business Journal*

IOWA

Walker Declares Emergency Amid Propane Delivery Problems

Gov. Scott Walker declared a precautionary energy emergency last week after a key propane pipeline experienced supply interruptions.

The emergency proclamation provides extended operation hours to truckers to make up for delivery delays caused by the Mid-America East Blue Pipeline, which delivers propane to wholesale consumers in Iowa, Illinois and Wisconsin. Officials said the pipeline problem was expected to be quickly fixed.

More: *WDIO*

KANSAS

State to Argue Before SCOTUS On Gas Supplier Anti-Trust Case

Lawyers representing the state will appear before the U.S. Supreme Court this week to defend the right of states to intervene in antitrust matters involving natural gas companies.

The case, *ONEOK v. Learjet*, pits a natural gas supplier against large consumers. The consumers, led by Learjet, said that ONEOK, a wholesale gas provider based in Tulsa, Okla., charged artificially high fuel prices. ONEOK argued its prices are regulated by the Federal Energy Regulatory Commission, not state agencies. ONEOK's appeals made it to the Supreme Court.

Although not parties to the original case, Kansas and 20 other states filed amicus briefs defending the rights of individual states to exercise their own consumer protection laws in the matter. "I'm encouraged that the Supreme Court granted us time for oral argument, and we will vigorously defend Kansas consumer-protection laws from the federal administration's power-grab," state Attorney General Derek Schmidt said.

More: *Topeka Capital-Journal*

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STATE BRIEFS

Continued from page 13

LOUISIANA

PSC Member Angelle Raises More than $1.5M for Gubernatorial Bid

Scott Angelle, a member of the Public Service Commission who is running for governor this year, has already raised $1.5 million to fund his campaign.

Angelle will face fellow Republicans U.S. Sen. David Vitter and Lt. Gov. Jay Dardenne, and Democrat state Rep. John Bel Edwards, in the Oct. 24 primary. Under Louisiana's system, all candidates appear on the same ballot, and voters may vote for any candidate, regardless of party affiliation. If no candidate receives a majority of the vote during the primary, a runoff election will be held on Nov. 21 between the top two primary candidates.

More: *The Advocate*

MARYLAND

State Department of Environment Opens Fracking Comment Period

The state Department of the Environment has opened a 30-day public comment period on proposed rules allowing hydraulic fracturing and natural gas development.

Gov. Martin O'Malley, in one of his final acts before leaving office, signed legislation allowing fracking in western Maryland. The rules contain a requirement other states have not included: permit applicants must produce a five-year comprehensive gas development plan. Gov.-elect Larry Hogan has promised to move swiftly to approve the rules after taking office Jan. 21.

More: *Greenwich Time*

Hogan Names Department Heads For Natural Resources, Environment


Hogan

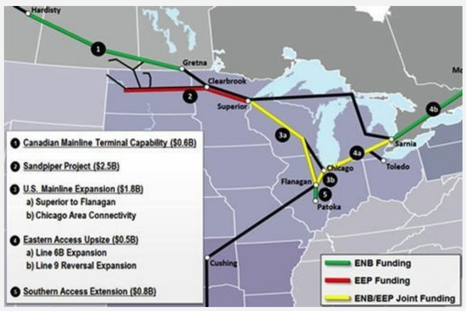
Incoming Gov. Larry Hogan appointed Charles Evans Jr. as the secretary of the Department of Natural Resources and Ben Grumbles as the Department of the Environment secretary.

Grumbles is a former assistant administrator at the federal Environmental Protection Agency under President George W. Bush and was involved in developing federal policy on hydraulic fracturing. Evans was assistant secretary of the state Department of Natural Resources under former Gov. Robert Ehrlich.

More: *ThinkProgress*

MINNESOTA

Sandpiper Pipeline Hearing Draws 500 Supporters and Opponents



The Public Utilities Commission conducted the third of five hearings last week on a proposed $2.6 billion pipeline that would transport crude oil from the Bakken fields through northern Minnesota. The hearing drew about 500 people.

The PUC will determine whether the Enbridge Energy project goes forward. The 612-mile pipeline would connect the Bakken fields in North Dakota to an Enbridge hub in Clearbrook and a Great Lakes terminal in Superior, Wis.

One woman said she was opposed to the pipeline out of fear that a spill "could, in an instant, destroy the reasons we are here." Others, such as a surveyor, said the pipeline could help boost the economy. The PUC is expected to issue a ruling in June.

More: *Pioneer Press*

MISSOURI

Two Utilities Seek Hikes In Fixed Rate Charges

Two utilities – Kansas City Power and Light and The Empire District Electric Co. – have asked the Public Service Commission to increase the monthly fixed-charge portion of customers' bills. Fixed charges are typically used for infrastructure costs.

KCP&L is asking for an increase from $9 to $25. Empire is seeking a boost from $12.52 to $18.75. KCP&L said it needs the increase to pay for transmission and distribution system improvements. Empire said the hike is needed to balance the company's fixed and variable costs for electricity, which it said are "out of whack."

More: *Midwest Energy News*

PSC Holds Hearings on Ameren's Rate Increase

The Public Service Commission heard from Ameren Missouri customers who are upset that the utility has filed for its sixth rate increase since 2006.

The company is seeking an increase of $264 million, about 10%. The PSC staff has recommended it get only $113 million, or about a 4% increase. Since 2007, Ameren rates have risen more than 40%. The company filed the request in July. The PSC is expected to rule in May.

More: *St. Louis Post-Dispatch*

NEBRASKA

State Supreme Court Throws Out Keystone Pipeline Challenge

The state Supreme Court decision on Friday removed a major hurdle for TransCanada's Keystone XL Pipeline.

The justices ruled 4-3 that a lower court correctly decided that a 2012 eminent domain law giving the governor the power to approve major oil pipeline projects was unconstitutional. But the state constitution requires five of the Supreme Court's seven members to rule a law unconstitutional. The 4-3 Supreme Court ruling thus, under state law, voids the lower court's ruling. "The legislation must stand by default," the justices' decision said.

It was an important win for the proposed $7 billion, 1,179-mile pipeline that is to run from Canada to the Gulf Coast. President Obama has vowed to veto Keystone legislation, but the White House has frequently hinged its opposition to the uncertainty of the Nebraska legal challenge. The court ruling came hours before the U.S. House of Representatives approved the pipeline in a crucial vote. The Senate vote is scheduled for Jan. 20.

More: *Wall Street Journal*

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STATE BRIEFS

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NEW JERSEY

Third-Party Provider Settles for $2.1 million in Bait-and-Switch

A third-party electricity provider accused of failing to live up to promises of guaranteed savings for customers has settled with state authorities for $2.1 million.

The Board of Public Utilities, the Division of Consumer Affairs and the state Attorney General's Office alleged that HIKO Energy promised savings to customers to switch but charged them even more than the default utility rate when prices surged during last year's frigid winter.

As part of the settlement, the energy supplier company will refund $1.82 million to customers. Similar complaints against two other third-party suppliers, Systrum Energy and Palmco Power, are pending.

More: The Record

Administrative Law Judge Says JCP&L Should Cut Rates by $107.5M

A state administrative law judge has recommended that Jersey Central Power & Light reduce its rates by $107.5 million. The state Division of Rate Counsel, which requested the review in 2011, called the recommended rate cut "unprecedented."

The agency, which represents consumers in rate cases, had argued that the FirstEnergy utility had earned too much since its last rate case in 2005. It sought a decrease of more than $190 million. The staff of the Board of Public Utilities had urged for a $169.8 million cut.

JCP&L said it will dispute Judge Richard McGill's findings. "Today's decision does not reflect costs incurred by the company since 2011, [which include] JCP&L's investment of more than $400 million to improve reliability across its service territory and the $580 million spent to rebuild the system following Superstorm Sandy," spokesman Ron Morano said in a statement.

More: Asbury Park Press

NEW MEXICO

PRC Selects Leadership, Montoya Now Chairman

Commissioner Karen L. Montoya was elected chairman, and Commissioner Lynda Lovejoy elected vice chairwoman, of the Public Regulation Commission last week. The five-member commission oversees New Mexico's utilities, telecommunications carriers and trucking industry.

Montoya, an Albuquerque native who joined the PRC in 2013, previously served as the Bernalillo County assessor. Lovejoy, a former Democratic state senator, was appointed to the PRC in 2007.

More: Daily Times

Hearings Start on PNM's Plan To Shutter Part of San Juan Station

Public Service Company of New Mexico's plans to shut down two units of the coal-fired San Juan Generating Station has sparked a spirited two-week hearing before the Public Regulation Commission. The two units produce 838 MW of the plant's 1,701-MW total.

The commission is reviewing PNM's plan to replace the power with a mix purchased on the wholesale market. PNM has said the replacement power would cost about $6.8 billion for 20 years, most of which would be recovered by boosting customer rates. Environmental groups and members of the Navajo Nation said the decreased emissions are a good first step. But Navajo Nation President Ben Shelly said he is also concerned about the possible negative economic effects of the closure.

PNM says that retiring the two units would cut plant emissions by 50% and help it meet federal emissions mandates. It also says the retirements would save the company $780 million.

More: Durango Herald

NORTH CAROLINA

Regulators Rule Against Utilities, Keep Solar Payment Structure

The Utilities Commission has decided that the pricing structure for power produced by solar facilities is fine the way it is, declining a request from Duke Energy and other utilities to potentially reduce payments to independent power producers.

The utilities had asked the commission to reduce the cutoff point for standard contracts from the current 5 MW to 100 kW. If that change were made, utilities would be able to negotiate separate supply contracts from generators of more than 100 kW. Solar providers sought to boost the limit to 10 MW, saying it would incentivize the renewable industry.

More: News & Observer

DOT Says Fracking Would Cause Millions in Road Damage

The Department of Transportation says increased traffic from natural gas development, which could start as early as this spring in North Carolina, could cause millions of dollars of damage to roads and bridges.

After studying shale gas operations in Pennsylvania, DOT analysts estimated that each fracking operation could require up to 1,600 trucks to deliver sand, water and equipment. The result: an uptick in maintenance and repair costs to roads and bridges that could approach $11 million.

"The volume of traffic can and does cause significant damage to secondary roads over a relatively short period of time," the report says. "The majority of this traffic occurs over a period of six weeks." DOT officials have proposed requiring drilling operators to put up multi-million dollar bonds to cover highway repairs.

More: News & Observer

OHIO

State Commerce Director Wants Old PUCO Seat Back

Andre Porter, the current director of the state's Department of Commerce, has applied to rejoin the Public Utilities Commission, where he previously served for two years.

"I'd like to return to the PUCO because there is complex and important work to be done," Porter wrote on his application. Porter, a Republican, is seeking the seat cur-

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STATE BRIEFS

Continued from page 15

rently held by Steve Lesser, the lone Democrat on the five-member commission. Lesser has also applied for re-appointment.

A special panel will select four finalists out of the 16 applicants, and Gov. John Kasich will make the final choice, which must then be approved by the state Senate. Porter served on PUCO from 2011 to 2013, when Kasich appointed him to the Commerce Department position.

More: *The Columbus Dispatch*

OKLAHOMA

Earthquakes Increase 5-Fold in 2014; Geos: Drilling & Injection to Blame

The domestic oil and gas boom is shaking up more than the energy markets. The number of earthquakes quintupled in Oklahoma last year compared to 2013, and geologists say the likely cause is the high volume of wastewater being injected into underground wells approved by the Environmental Protection Agency.

The state experienced 564 earthquakes of magnitude 3.0 or greater in 2014, compared to 100 for the same period last year. Between 1975 and 2008, the state reported between one and three quakes of magnitude 3.0 or greater a year.

Most seismic activity appears to be linked to underground injection control, the practice of pumping wastewater into deep, isolated rock formations. The bonanza in oil and gas production from shale has produced a boom in wastewater from hydraulic fracturing. In many states, injection wells are the preferred disposal method for the liquids. The U.S. Geological Survey said in a report last year that injection wells were a “likely contributing factor” to the tremors.

More: *E&E Publishing*

OCC Member to Temporarily Serve as Admin. Director

Corporation Commission member Bob Anthony, the nation’s longest-serving utility commissioner, will temporarily fill in as the commission’s director of administration.

Anthony, who was first elected to the commission in 1988 and has served six times as the OCC’s chairman, said the commission will seek a permanent director after its third member, Todd Hiett, takes office this month.

The director’s position became vacant following the departure of Lori Wrotenbery, who announced in October that she would be leaving for family reasons.

More: *KGOU*

PENNSYLVANIA

Media Asking Court to Force PUC to Open PPL Outage Records

Two news organizations are asking the state Supreme Court to force the Public Utilities Commission to release documents related to an investigation into alleged favoritism in PPL Utilities’ storm response.

The PUC cited the Allentown utility for accelerating the repair of an unnamed customer during a 2011 storm, and PPL paid a $60,000 settlement. *The Morning Call* and the *Wilkes-Barre Times* requested that the PUC identify the customer. The state Office of Open Records agreed with the news organizations. But the PUC and PPL appealed the decision, and the Commonwealth Court ordered that the records stay closed. A coalition of Pennsylvania media organizations wants the Supreme Court to overturn that ruling.

“In this case, the system failed to serve the public's right to information to which it was fundamentally entitled," said David M. Erdman, *The Morning Call*'s editor and vice president. “Our coalition is strongly affirming the public's right by speaking with one voice in our petition to the Supreme Court.”

More: *The Morning Call*

SOUTH DAKOTA

PUC to Allow TransCanada to Argue for Lapsed Permit

TransCanada, builder of the proposed Keystone XL Pipeline, should be allowed to try to convince regulators that a construction permit issued in 2010 is still valid, the Public Utilities Commission ruled last week. State law calls for projects to get recertified if the permits are more than four years old and construction hasn’t begun.

The Yankton Sioux and Rosebud Sioux tribes had sought to dismiss TransCanada’s application, saying that changes to the pipeline plan since the permit was issued should force the company to start the process again. “At best,” said Commission Chairman Gary Hanson, “the tribes’ motion is premature. Under South Dakota law, the applicant has a right to a hearing.”

A hearing is set for May.

More: *Aberdeen News*

VIRGINIA

Dominion Suing Landowners Who Denied Property Access for Surveys

Process servers in Nelson and Augusta counties are expected to be busy this week serving notices to landowners who have denied access to pipeline surveyors working for Dominion Resources.

Dominion and other companies who want to build a natural gas pipeline through Virginia filed 20 suits in Nelson County and 27 in Augusta County, arguing that utilities are allowed to survey private property for prospective projects. The companies are building a 550-mile Atlantic Coast Pipeline to deliver shale gas from West Virginia to North Carolina.

More: *C-Ville*

WISCONSIN

Public Comment Session for Badger-Coulee Project Ends

State utility regulators have closed the public comment session for the proposed Badger-Coulee transmission line, and technical hearings are to start this week. The Public Service Commission will determine whether the project, part of a larger transmission line known as CapX2020, is in the public interest.

The $580 million line would deliver wind energy from Minnesota and Iowa to markets in the east. Opponents of the line, mostly landowners whose rights of way could be taken through eminent domain, say the demand for the electricity just isn’t there. Builders ATC and Xcel say the line is needed to improve system reliability and to deliver cheaper power to consumers.

More: *Lacrosse Tribune*

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STATE BRIEFS

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MANITOBA

Pallister Calls for Change to Bipole III Route for Savings

Conservative Leader Brian Pallister said last week that changing the route of the proposed $4.6 billion Bipole III transmission line to the east side of Lake Manitoba from the west side would reduce costs. The ruling New Democratic Party has endorsed the longer and more expensive western route to avoid a sensitive boreal forest that is a proposed UNESCO World Heritage site.

"This is an opportunity to reset the debate on the most important project currently being undertaken by Manitoba Hydro and the province," he said. "We demand the next potential premier tell Manitobans if they will take steps to keep Manitobans' Hydro bills low."

The transmission project, proposed in 2010, would deliver power from northern hydroelectric plants to customers in the south of the province.

More: *Winnipeg Free Press*

-- Compiled by Ted Caddell

Illinois Considering Carbon Tax, Cap-and-Trade to Save Exelon Nukes

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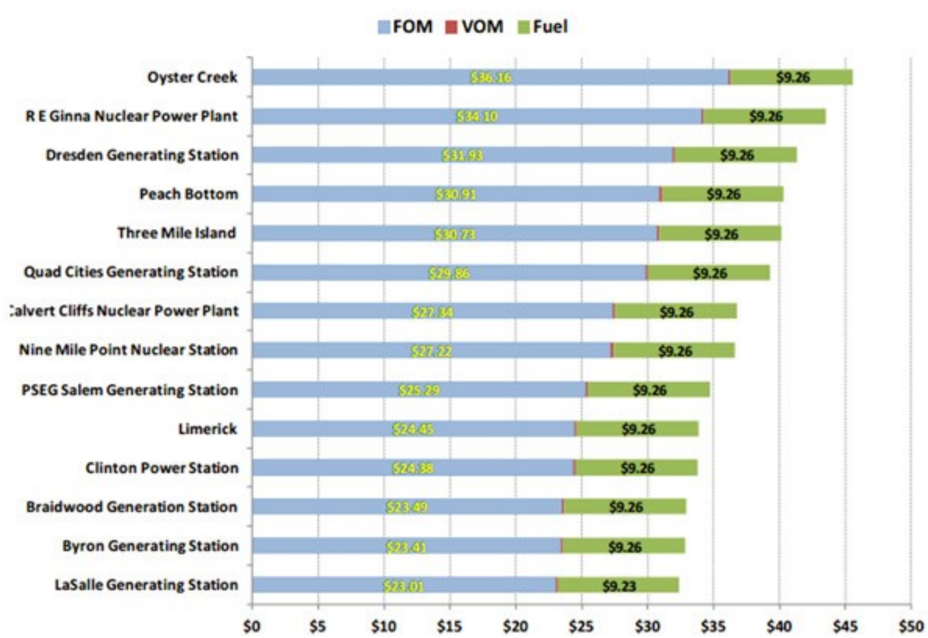
-risk nuclear plants and associated consequences."

Exelon last year said that three of its nuclear generating stations — Byron, Clinton and Quad Cities — have been unprofitable in the current market, and the company threatened to shut them down if changes weren't made. The company has said government subsidies and tax credits given to the wind and renewable energy sectors result in an unfair market advantage for those generators. It also has repeatedly said it is not looking for a "bailout" of the plants, instead arguing that the nuclear stations should get credit for producing carbon-free electricity.

Much of the Illinois report is concerned with the potential costs to the state if the plants are retired. Faced with the loss of jobs and tax revenue if they close, and the possibility of having to burn more fossil fuels to make up for the lost generation, the agencies suggested a series of programs and taxes that would penalize fossil fuel burners and provide incentives to Exelon to keep its nuclear plants open:

- Do nothing, and rely "purely on the market and external initiatives to make corrections;"
- Establish a cap-and-trade program with other states, which would monetize the carbon-free nature of nuclear generation;
- Tax those generators that do burn fossil fuels and produce carbon emissions;
- Adopt a low-carbon portfolio standard; or
- Adopt a sustainable power planning standard.



Modeled costs of Exelon's existing nuclear fleet for 2016. (2011 $/MWh) (Source: U.S. EPA)

Higher Prices, Job Losses

No matter what policy is adopted, ratepayers would probably end up paying more, either through having to fund the subsidies through taxes or by being hit with higher energy bills. The costs of plant closures alone, not taking into account the effect on rates or the wholesale market, are substantial, according to a section of the report by the Commerce Department. The agency predicted 2,500 direct job losses at the nuclear plants, 5,300 indirect job losses, more than $1.8 billion in annual lost economic activity and a 10 to 16% increase in wholesale power prices.

Replacing the nuclear capacity with more than 7,000 MW of wind and 1,500 MW of solar by 2020 would create more jobs initially — 9,600 — but much of that would be temporary construction work, resulting in a net loss of more than 5,000 jobs.

That there would be an impact on costs up-

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Illinois Considering Carbon Tax, Cap-and-Trade to Save Exelon Nukes

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on retirement of any of the plants is undisputed, according to the report. A PJM analysis adopted by the report shows a jump of up to 9.9% in energy costs in the RTO's Commonwealth Edison zone if all three plants were retired. Spread out over all zones of PJM, the increases are less pronounced, topping out at about 3.5% if all three plants retired.

Reliability Impact

The cost of the decrease in reliability is difficult to quantify, according to the report, but would easily be "in the hundreds of millions of dollars or more." The cost of making substantial changes and improvements to the transmission system alone, and changing Illinois from a net exporter of electricity to a net importer, would be an additional burden — also measured in the hundreds of millions of dollars.

"There is a potential for impacts on reliability and capacity from the premature closure of the at-risk nuclear plants," the Illinois Power Agency said. "However, in many of the cases analyzed, reliability impacts remain below industry standard thresholds, and impacts appear to be more significant in other states than in Illinois.

"Taken alone, there may not be sufficient concern regarding reliability and capacity to warrant the institution of new Illinois-specific market-based solutions to prevent premature closure of nuclear plants. But combined with the issues raised by the reports prepared by the ICC, IEPA and DCEO, the totality of the impacts suggest that the General Assembly may want to consider taking measures that would prevent the premature closure of at-risk nuclear plants."

The environmental costs are briefly outlined in a section of the report, with an analysis done by PJM at the request of the ICC. The RTO estimated that if all three plants closed, the resulting increased dependence on fossil generation would lead to "increased carbon dioxide emissions of up to 18.9 million tons across the PJM region and up to 8.7 million tons for the state of Illinois." The Illinois EPA wrote that it estimates the costs to society of replacing the nuclear generation with another, fossil-heavy mix — what it calls the Societal Cost Carbon Estimate — at between $2.5 billion and $18.6 billion from 2020 to 2029.

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Negotiations to Extend NY Nuke Plant Life to Conclude this Week

By William Opalka

Negotiations that could determine the future of an upstate New York nuclear power plant are set to conclude this week, following a 60-day schedule set out by state regulators.

The New York Public Service Commission in November ordered the owner of the 580-MW R.E. Ginna plant on Lake Ontario to negotiate a temporary contract with the local utility, Rochester Gas & Electric.

The plant has been deemed necessary to maintain system reliability in western New York in a study ordered by the PSC.

However, plant owner Constellation Energy Nuclear Group, a unit of Exelon, said it has lost $100 million over the past three years and will mothball the plant if it can't get higher prices for its output.

The PSC wants the companies to negotiate a reliability support services agreement (RSSA) in which RG&E would buy Ginna's output, which is currently sold at a loss into the NYISO wholesale market, according to Constellation. A negotiated settlement is due on Thursday, or the parties must inform the PSC they were unable to reach one.

Spokesmen for both Constellation and RG&E said negotiations are continuing but would not discuss details.

Ginna was formerly owned by RG&E but was sold to Constellation in 2004. The plant, which is licensed through 2029, had a 10-year power purchase agreement with RG&E that expired last June.

Rochester-area customers are likely to face higher electricity costs regardless of the outcome. A higher, above-market price would presumably be negotiated with Constellation, or if Ginna is eventually taken offline, the reduced supply will drive up prices in the western New York region.

Entergy, another nuclear power generator that owns the Indian Point Energy Center north of New York City, has opposed the RSSA. It argued, unsuccessfully, that Constellation has effectively tried to file a retirement notice without the proper procedures, time and expense any other nuclear power plant owner would be required to do under similar circumstances. It also said an RSSA presented directly to the PSC would not permit review and comment, to which other "must-run" agreements are subject.

RG&E, a subsidiary of Iberdrola USA that serves 371,000 electricity customers in a nine-county region, said it would face reliability issues anytime its load exceeded 1,430 MW. Its modeling indicates that would occur at least for 205 hours per year.

RG&E said a transmission project expected to be in service in late 2018 will shorten the length of the Ginna agreement.

The $250 million Rochester Area Reliability Project will access power from the New York Power Authority's 345-kV cross-state transmission lines originating in Niagara Falls.

It includes 1.9 miles of new 345-kV transmission, 23.6 miles of new or rebuilt 115-kV lines, a new 345-kV/115-kV substation and equipment upgrades. The project was first intended to maintain reliability in the event of a long-term outage at Ginna.

Illinois Considering Carbon Tax, Cap-and-Trade to Save Exelon Nukes

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Plants' Profitability

A large portion of the report consists of cost analyses and revenue examinations, with a multitude of factors in an attempt to determine if, in fact, some of Exelon's nuclear stations are unprofitable. "Because of the limited cost data available, it is not entirely clear whether or not Exelon's Illinois plants earn sufficient revenues to cover their operating costs," the report concludes. "As shown, some of the Illinois nuclear units would require no price increase — relative to the 2007-2013 price averages — to restore profitability."

The report said price increases expected under the U.S. EPA's proposed carbon emission rule — estimated at 10 to 20% — will improve the profitability of Exelon's nuclear units. But that would not be enough to save Quad Cities, which would need a 50% increase to become profitable.

The report also predicts that nuclear units will benefit under PJM's Capacity Performance proposal because of their low forced outage rates.

Carbon Tax

As one solution, the report suggests a carbon tax, which would generate a revenue stream while also providing an incentive through market signals for low- or carbon-free emission generation.

Another suggested solution is that the state convert its renewable portfolio standard to a low carbon standard that includes nuclear power among favored generation sources. As under RPS, wholesale purchasers of electricity would be required to obtain specified percentages of their supply from sources with lower carbon intensity than that of fossil-fuel generation.

Exelon's Quad Cities nuclear plant.

Exelon's Response

Exelon issued a written statement yesterday morning, in which it quoted parts of the report that supported its view of the need to develop a policy to keep the nukes running.

"We thank the state for its attention and work on such an important issue for Illinois and the future of the state's energy assets," the statement reads. "The report makes clear that the future of Illinois' nuclear power plants should be an issue of statewide concern.

"We continue to believe that the best, most cost-effective approach for preserving the benefits these plants provide is a market-based solution that properly values the emissions-free, always-on energy they generate."

No to 'Bailout'

Howard Learner, executive director of the Environmental Law & Policy Center, said the report "shows that Exelon's nuclear plants that aren't economically competitive can be retired without added costs to Illinois consumers, without hurting reliability and with more job creation by growing clean renewable energy and energy efficiency."

"This report confirms that the competitive power market is working to hold down Illinois energy costs," Learner said. "We shouldn't bailout Exelon's old, uncompetitive nuclear plants. Instead, we should invest in new renewable energy, like wind and solar, and energy efficiency to grow a cleaner Illinois energy future."

AEP Considering Sale of 8,000 MW in Ohio, Indiana

Continued from page 1

renceburg, which is in Indiana. They represent a total of 7,875 MW.

The news isn't exactly unexpected. AEP officials have been saying for the past several months that such a deal could be in the company's future.

AEP Ohio President Pablo Vegas told *Columbus Business First* in an interview late last year that the plants in question are struggling to remain profitable.

"Those power plants that are on the economic bubble today are essentially coal plants and nuclear plants," Vegas said. "They're struggling in the PJM market to cover their fixed costs."

AEP has gone before the Public Utilities Commission of Ohio seeking long-term guaranteed rates for some of its largest plants in an effort to remain competitive. (See *AEP Seeks State Backing for Aging Ohio Coal Plant*.)

If PUCO doesn't rule in AEP's favor, this could be the backup plan.

AEP's competitive generation plants in PJM. (Source: AEP)

Other companies have taken steps to reduce their exposure to the volatility in merchant generation.

Duke Energy exited the field, selling its interest in 11 plants in Ohio, Pennsylvania and Illinois and its retail energy business for $2.8 billion to Dynegy. PPL is in the process of spinning off its generation in a joint venture with Riverstone Holdings.

Stakeholder Process Under Attack at FERC Hearing on PJM Financial Trades

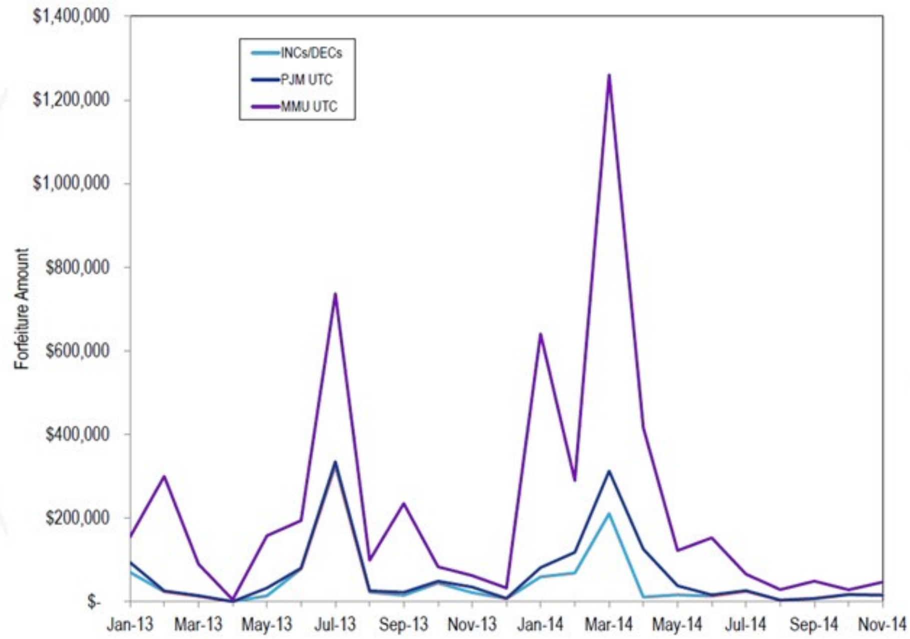
Continued from page 1

(See *PJM Traders Continue to Shun UTCs on Uplift Fears*.)

PJM Market Monitor Joe Bowring and David Patton, Monitor for MISO, ISO-NE and NYISO, were among 11 panelists who spoke during the all-day session Jan. 7. They were joined by economists and representatives of several financial trading firms critical of PJM's rules and Bowring's interpretation of them. Commissioner Philip Moeller sat in for the afternoon session but asked no questions.

Bowring often found himself alone in defending his views. At one point, Patton waded into a debate between Bowring and Inertia Power's Noha Sidhom over whether PJM's enforcement method presumes collusion. After beginning by offering himself as a mediator in the disagreement, Patton ended by criticizing PJM's method as "arbitrary and capricious."

"If that's mediation," Bowring responded dryly, "I'd hate to see him take a side."



Comparison of FTR forfeiture methods (Source: Monitoring Analytics)

2013 Tariff Revisions

In 2013, PJM proposed Tariff and Operating Agreement changes to redefine UTCs as virtual transactions and make them subject to FTR forfeitures (ER13-1654). The RTO said the change was justified by the evolution of UTCs from a congestion hedge for physical transactions to a purely financial product.

That didn't go far enough for FERC, which said it had concerns about differences in the way PJM planned to apply the rule. The commission also questioned why PJM was not assessing UTC uplift charges even though the RTO believes the transactions contribute to uplift.

Last week's conference featured debates over the similarities between UTCs and paired INCs and DECs, the need for the forfeiture rule, the impact of the decline in UTC trading and the ability to assess market players' contribution to uplift.

William Hogan, research director of the Harvard Electricity Policy Group and an intellectual forefather of current RTO market designs, was highly critical of FERC for not asserting more leadership.

"I think FERC is not doing its job in setting priorities and … forcing these processes to create efficient markets," he said. "And it's deferring too much to stakeholder processes and bottom-up, consensus agreement. It's a big mistake and it's hurting us more and more."

Anticompetitive Motives Alleged

Two panelists accused Bowring and large market participants of having ulterior motives in assigning fees to financial traders.

Sidhom said UTCs cannot bear uplift charges because their profit margins are thinner than those of INCs and DECs. The Monitor's motive "is to kill the UTC product," she said.

Wesley Allen of Red Wolf Energy Trading said the cost allocation resulting from PJM's stakeholder process is akin to Microsoft assigning costs to Apple, with the large utility holding companies using their domination of the stakeholder process to crush competition from small financial traders.

"When it comes to allocation of costs, a Fortune 500 company can allocate some of their costs to another market participant and simultaneously eliminate their competition," Allen said.

"The stakeholder process is not there to come up with the best results for the market," he said. "The stakeholder process is about people — Fortune 500 companies largely, who control the voting — managing their costs as best they can. Eliminating their competition as best they can."

Although the holding companies must select membership in a single sector for sector-weighted votes in PJM's most senior committees, they have multiple subsidiaries that vote in the lower committees in several different sectors.

PJM, he said, is returning to its monopolistic past. "We're getting there through the allocation of fees," he said.

FTR Forfeiture Rule's Genesis

PJM moved swiftly to implement the FTR forfeiture rule in December 2000, filing it for FERC approval just two weeks after discovering that some traders were using INCs and DECs to create artificial congestion.

The traders were using radial paths — ones designed for future growth, which have few or no network connections. "They would increase or decrease congestion to increase FTR revenues in locations where we never saw congestion before," said Stu Bresler, PJM vice president of market operations. The traders didn't mind losing some money on the virtual trades because they were making more on the artificially created congestion.

"It is about manipulation," Bowring told the conference.

Traders: 'Worst-Case' Selection Unfair

Under the rule, traders of INCs and DECs forfeit profits on FTRs when their virtual trades increase congestion and day-ahead/real-time price divergence. PJM identifies

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offending trades by first screening for those deemed to be "at or near" the constrained FTR paths. Then it determines whether the participant's FTR profits are likely to have increased as a result of the virtual transactions by determining whether the day-ahead congestion revenues on the FTR paths increased relative to real-time revenues.

To estimate the effect of a transaction on flows, PJM must identify both the source and sink buses of the transaction. But because INCs and DECs have only one bus, PJM must select a second bus to complete the analysis.

For the second bus, PJM uses what it deems the "worst-case" bus to determine the potential impact of the trade on the FTR path. The worst-case bus is the one that has the highest net distribution factor — -the percentage of the total energy of the transaction that flows on the FTR path. Trades with distribution factors of 75% or higher are deemed "at or near" the constrained FTR paths. (The worst-case identification is not necessary for UTCs, which have explicit sources and sinks.)

Harry Singh of J. Aron and Co. told the conference that PJM's method is unfair. "Power doesn't sink at the worst-case connection," he said.

Inertia Power's Sidhom also was critical. By using the worst-case bus, PJM is often attributing to one trader the actions of another, she said.

"The fundamental flaw is taking another person's transmission into consideration," she said. "Don't have a rule that I can't screen for."

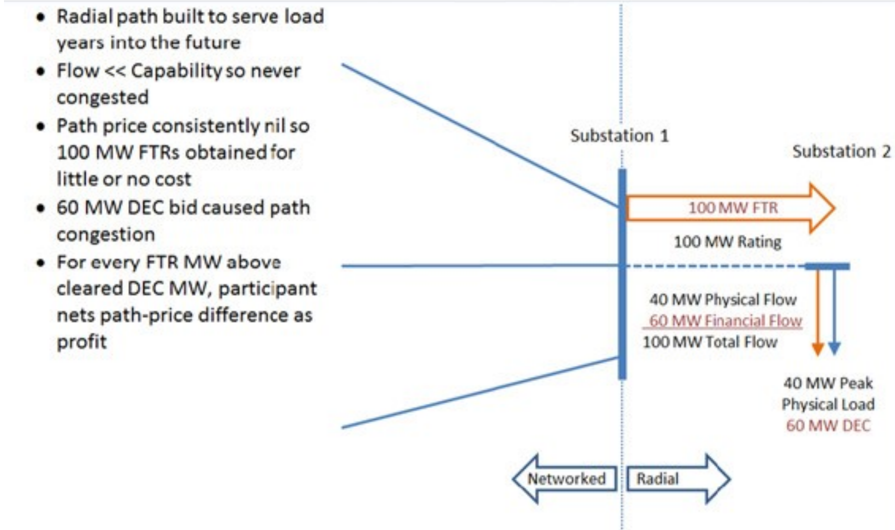
Referring to calls to extend the rule to UTCs, she asked: "Do we want to take a flawed rule and apply it to another transaction?"

The financial traders found support from Patton and Bresler.

"PJM's opinion at this point is that we probably went too far with that," Bresler said, "because we're evaluating one participant's activity against somebody else's, of which assumedly they don't have knowledge."

Patton said using the worst-case bus leads to one of two results. "It's either irrelevant or it's leading you potentially to a bad decision," Patton said.

But Bowring was unyielding, saying it is better to err on the side of over-enforcement



Using virtual transactions to boost FTR revenue. (Source: PJM)

rather than under-enforcement.

"The consequences of over-mitigation are very small," he said. "The consequences of under-mitigation are very large."

Bowring also insisted the rule is more efficient than a case-by-case review.

Bowring has recommended modifying the rule by evaluating traders' portfolios. He also favors applying the rule to UTCs and counterflow FTRs in addition to the prevailing-flow FTRs now covered.

Bresler said there is no need to subject counterflow FTRs to the rule. "It's much more difficult to manipulate through counterflows," he said. He said he has concerns that a portfolio approach would result in false positives — "catching too many fish in the net."

No Forfeiture Rule in Other RTOs

Unlike PJM, NYISO, ERCOT and MISO do not have a forfeiture rule, and ISO-NE has one that Patton said is never applied. "Whenever we've looked at it we've found the costs outweigh the benefits," he said. The fact that it took FERC several years to act against Louis Dreyfus Energy Services for using virtual trades to boost its FTR revenues "illustrates it's hard to develop a bright-line test," he said.

Patton said generic market manipulation rules provide sufficient protection against gaming of FTRs. The scheme, he said, is easy to spot. "I'm not worried about the bank robber who comes wandering in without a mask on and stands in front of the security camera. And that's effectively the people who would be caught by this rule."

Bresler said PJM favors replacing the worst-case test with the use of a load-weighted reference bus for INCs and generation-weighted reference for DECs.

Sidhom said she supported such a change. "We're not that far apart on the forfeiture rule," she said. "I really don't know if we need wholesale changes here."

Assessing UTCs for Uplift

The other major issue at the conference was whether UTCs should be assessed uplift charges. Bowring believes they should, saying the disparity in treatment is a major reason why UTC trading volumes have increased in recent years while INC and DEC trading has declined.

Stephanie Staska, chief risk officer for Twin Cities Power Holdings, said no virtual trades should be assessed for uplift related to "deviations," a term she notes is not defined in the PJM Tariff.

Based on the dictionary definition — "an action different from what is usual or expected" — uplift is properly charged to those whose real-time physical positions differ from their day-ahead positions, such as load that is under- or over-forecast and generation and demand response that fails to meet the scheduled output.

In contrast, Staska said, traders entering into financial contracts receive both a day-ahead and a real-time position that cannot be cancelled or altered after the day-ahead market closes.

Bowring disagreed, saying virtuals affect dispatch and commitment decisions. The Monitor said UTCs were responsible for 64% of the deviations corresponding to

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negative balancing congestion in 2013 and INCs and DECs added another 24%.

Bowring said virtuals' uplift "allocation should be reduced … but there's no reason to exempt anyone, including UTCs."

Bowring said billing UTCs $0.57 to $0.65 per megawatt-hour would allow PJM to cut uplift charges on INCs and DECs by more than 80% and by more than half for day-ahead load.

PJM Charges Higher than Other RTOs

PJM's current uplift charges are more than three times those in MISO, CAISO and ERCOT, according to a summary compiled by Allen, who said PJM has rejected traders' request for a cost causation study.

Harvard's Hogan said attempting to assess cost causality on uplift results in circular logic.

He recommends day-ahead transactions be exempt from uplift. Instead, he said, uplift should be allocated to real-time transactions with the lowest demand elasticity. "Then spread it wide" so the charges are small, he said.

PJM and Bowring are working on a joint proposal on uplift that they will present to the RTO's Energy Market Uplift Senior Task Force, said Adam Keech, director of wholesale market operations. "Hopefully that can garner some support" among stakeholders, he said.

ISO	Energy Products	Congestion Products		Netting	Admin Fees $/MW	Real Time Uplift	Avg uplift $/MW 2013
		Hourly	Long-term				
ERCOT	Yes, called DAM Energy Offer/Bid	Yes, called PTP	Yes, CRR	Yes	$0.14	Hourly Net short	$0.01 for DA uplift
NYISO	Yes, Zonal	No	Yes, TCC	N/A	$0.10	N/A	N/A
CAISO	Yes, called convergence bidding	No	Yes, CRR	Yes	$0.083	Hourly Net short	$0.26 (FMM)
MISO	Yes, incs/decs	Virtual Spread bid under development	Yes, FTR	Yes	$0.075	DDC: Hourly Net Short	$1.00 (DDC)
				(Market Wide)		CMC: Hourly Net Flows	$0.02 (CMC)
PJM	Yes, incs/decs	Yes, UTC	Yes, FTR	Yes for Physical	$0.045	Daily Rate	$3.28 (East)
				No for Financial			$1.65 (West)
SPP	Yes, incs/decs	No	Yes, FTR	No	$0.05	Daily Rate	$1.73 (2014 YTD)
ISO-NE	Yes, incs/decs	No	Yes, FTR	No	Not known	Daily Rate	$2.95

Financial products and uplift charges by RTO. (Source: Red Wolf Energy Trading)

Fixed Fee

Keech said the task force's consideration of replacing the current uplift formulas with a fixed fee was abandoned for lack of support.

"A fixed rate is simple. It's also wrong," Bowring said. "Every day it's wrong."

Abram Klein of Appian Way Energy Partners said a fixed fee is "not a horrible outcome. … That's a proposal we could ultimately live with."

Impact of Drop in UTC Trading

The panelists also sparred on the impact the drop in UTC trading since September has had on uplift and price convergence.

Scott Holladay, senior economist for Yes Energy, said the "before/after" analyses conducted by PJM and Bowring overlooked the fact that PJM's load curves dropped as summer turned to fall. Holladay said his own analysis, which controlled for seasonality, showed that the decline in UTCs has resulted in a drop in price convergence and increased uplift. Allen said that Holladay's analysis indicates the loss of UTCs has resulted in $1.2 billion in "increased inefficiency."

Bowring said the $1.2 billion figure "has no basis in fact."

Keech also rejected Holladay's conclusion, saying uplift was at "historically low" levels since March 2014, averaging $30 million a month less than in 2013, thanks in part to a mild summer and low fuel prices. "I don't want people saying that we took UTCs out of the market and uplift went up. That is not the case."

It was difficult to determine the impact of the drop in UTCs, Keech said. "It's not really clear that price convergence has gotten better or worse."

Keech also said assigning cost causation "is extremely difficult."

"We haven't done a cost-causation analysis because frankly we haven't defined what that term even means in the context of this discussion," he said.

RTO Insider

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