RTO Insider

Your Eyes and Ears on the Organized Electric Markets

ISO-NE ■ MISO ■ NYISO ■ PJM ■ SPP

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Exelon-Pepco Deal Moves Forward in NJ, Del.

By Ted Caddell and Michael Brooks

Exelon's $6.8 billion bid to acquire Pepco Holdings Inc. took two steps forward last week when it gained approvals from both the New Jersey Board of Public Utilities and the staff of the Delaware Public Service Commission.

The New Jersey BPU gave final approval Wednesday to a settlement that will give

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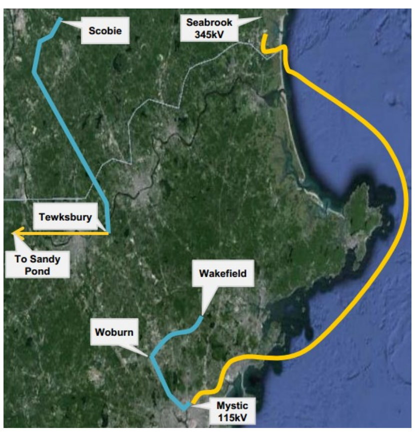
Hundreds of regulators and electric industry stakeholders relaxed over cocktails Sunday night in Washington, where the National Association of Regulatory Utility Commissioners is holding its winter committee meetings. See next week's RTO Insider for news from the conference.

ISO-NE Chooses Land-Based Tx Project for Boston Area

By William Opalka



ISO-NE announced Thursday it had chosen a land-based, alternating current transmission project to address reliability concerns in the Boston area that came in about $260 million less than a competing undersea cable proposal.

The Greater Boston and Southern New Hampshire Reliability Project, proposed by Eversource (formerly Northeast Utilities) and National Grid, has a price tag of $739.7 million and is expected to be completed in 2018.

The all-AC project was chosen over a proposal from New Hampshire Transmission, which included both AC and underwater high voltage, direct current transmission.

ISO-NE said the AC plan was selected because it is significantly less expensive and it promised superior operating performance.

"Greater Boston is the largest area of consumer demand on New England's power system, and its transmission system is in critical need of an upgrade," said Stephen Rourke, vice president of system planning.

The project is past due, ISO-NE said in a statement. "The year of need for certain components of the Greater Boston Reliability Project was pre-2013. The ISO is analyzing whether additional special operating plans need to

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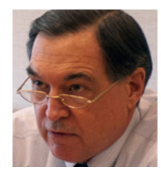
DOE IG Warns FERC Information Security 'Severely Lacking'

Probe Cites Missing Email, Conflicting Testimony

By Ted Knutson and Rich Heidorn Jr.

WASHINGTON — The Federal Energy Regulatory Commission's protection of information on the vulnerability of the nation's electrical grid is "severely lacking," Department of Energy Inspector General Gregory Friedman warned in an inspection report.

The report, released Feb. 4, also said investigators found "troubling" inconsistencies between the testimony of FERC staffers and former FERC Chairman Jon Wellinghoff. Investigators said their efforts to reconcile the disparities were hampered be-



Wellinghoff

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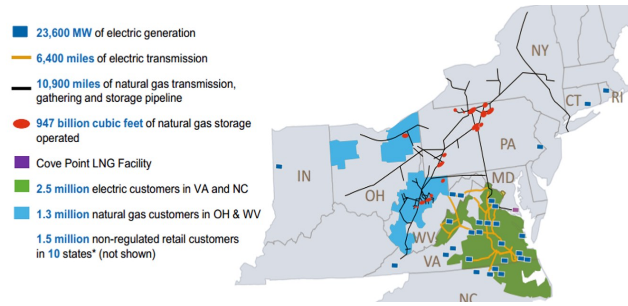
COMPANY EARNINGS

PJM

Dominion Earnings Dip as It Builds for Future

By Ted Caddell



Dominion gas and electric assets. (Source: Dominion Resources)

Dominion, a company that has made some dramatic shifts in direction in the past year, announced a significant drop in reported earnings for the fourth quarter of 2014.

Fourth-quarter earnings were about $243 million in 2014, compared to $431 million in 2013. Full-year earnings saw a similar dip at $1.31 billion ($2.24/share) compared to $1.7 billion ($2.93/share) for 2013.

According to Dominion's earnings report and an analyst presentation made last week, much of the dip shows a company preparing for its future as it pushed a lot of costs into 2014. Its operating earnings were about twice its reported earnings for Q4 and about 50% higher for the year.

The results reflected its decision to pay down debt and take a number of charges in the year. Costs excluded from operating earnings included:

- A $248 million charge associated with Virginia legislation enacted in April that permits Dominion Virginia Power to recover 70% of the costs previously deferred or capitalized through Dec. 31, 2013, for development of a third North Anna nuclear unit and offshore wind facilities as part of its 2013 and 2014 base rates;
- A $193 million net charge from the termination of natural gas trading and some energy marketing activities;
- A $74 million charge related to future ash pond closure costs; and
- A $31 million goodwill write-off related to the company's exit from the unregulated electric retail energy business (sold to NRG Energy).

While earnings took a hit, CEO Thomas F. Farrell II said it is investing in its future, and its leadership is betting on a bright one. "Our management team owns the highest percentage of stock [of] any … company in the sector," he told analysts last week.

Dominion issued a successful IPO for its natural gas export business, Dominion Midstream. It gained the final permit from the Federal Energy Regulatory Commission for its Cove Point LNG export facility, and construction started the same day. The facility is expected to go into service in 2017, he said.

It bought a pipeline company, Carolina Gas Transmission, from Scana Corp. for $429.9 million, acquiring 1,500 miles of interstate natural gas pipeline in the deal.

Dominion is also a major partner in the Atlantic Coast Pipeline project, a planned 550-mile natural gas pipeline that would bring Marcellus and Utica shale gas to Virginia and North Carolina.

Farrell said the company plans to invest $700 million in solar in the coming years.

And while the company has sliced its merchant generation fleet from about 11,000 MW three years ago down to 3,643 MW now, it is boosting its regulated generation fleet.

It put one new $1.1 billion gas-fired, combined-cycle plant, the 1,342-MW Warren plant, in operation in December. It is building a second, a 1,358-MW plant in Brunswick, representing another $1.2 billion investment. Farrell said on the call that the company is planning a third, which at 1,600 MW would be the largest gas-fired plant in the U.S. It would be built in Greenville County, Va., east of Brunswick.

Chief Financial Officer Mark McGettrick said the company plans a total of about $20 billion in capital investments over the next six years.

"2014 was a year of significant accomplishments for Dominion as we completed several major capital projects and made significant progress to advance the next round of infrastructure growth," Farrell said.

AEP Earnings Drop; Seeks Boost from Capacity Market Changes

By Suzanne Herel

American Electric Power reported fourth-quarter earnings of $191 million ($0.39/share), compared with $346 million ($0.71/share) for the same period last year. Full-year earnings were $1.634 billion ($3.34/share), compared with $1.48 billion ($3.04/share) in 2013.

The Columbus, Ohio-based company attributed the fourth-quarter drop to the termination of a long-term coal contract.

However, CEO Nicholas Akins said the company benefited from successful regulatory proceedings in several states.

"The reliable performance of our generation fleet during colder-than-normal temperatures in 2014 gave us the ability to advance spending from future years into 2014. Those shifts, combined with our initiatives to put in place sustainable process improvements, will help us manage the revenue challenges presented by the Ohio deregulation transition and the 2016-2017 PJM capacity market results," Akins said.

Chief Financial Officer Brian Tierney referenced PJM's Capacity Performance proposal, urging the Federal Energy Regulatory Commission to approve the changes quickly to stabilize PJM's markets and ensure its reliability amid impending coal unit retirements.

"In regards to the challenges we face for 2015, I think you're well aware of them — from the earnings shortfall from the PJM capacity pricing and the retail stability rider, the lower natural gas prices and power prices and their impact on our system sales," he said. The rider was approved by the Public Utilities Commission of Ohio to help the company transition to a competitive market.

Tierney also confirmed that AEP has hired an investment bank to help evaluate the company's alternatives regarding the disposition of its unregulated businesses.

COMPANY EARNINGS

Exelon Earnings Down; Blames Mild Weather

By Suzanne Herel

Exelon reported fourth-quarter earnings Friday of $18 million ($0.02/share), compared with $495 million ($0.58/share) in 2013. For the year, the company reported earnings of $1.623 billion ($1.88/share) versus $1.719 billion ($2.00/share) in 2013.

The Chicago-based company attributed the depressed earnings in part to warmer-than-expected temperatures in the last three months of the year.

CEO Chris Crane touted the company's investments in emerging technology, citing Bloom Energy, whose East Coast manufacturing facility is based in Delaware.

Exelon announced last July it would provide equity financing for 21 MW of Bloom Energy fuel cell projects at 75 commercial facilities in California, Connecticut, New Jersey and New York.

Exelon's pitch to Illinois policymakers. (Source: Exelon)

He also noted progress in the discussion to improve the finances of its Illinois nuclear plants. A report released by Illinois officials last month underscores their reliability as well as economic and environmental benefits to the state, he said. (See *Illinois Considering Carbon Tax, Cap-and-Trade to Save Exelon Nukes*.)

Said Bill Von Hoene, chief strategy officer: "We are supportive of any of the options that reward all carbon-free resources equally, but doing nothing simply is not a viable economic option if we are to maintain the operations of those plants that are at risk. As we stated repeatedly, we do not seek a bailout."

He noted recent approvals of the Pepco Holdings Inc. acquisition by New Jersey, FERC, Virginia and Delaware, saying he expects the deal to close in the second half of this year. (See *Exelon-Pepco Deal Moves Forward in NJ, Del.*)

"We are continuing the process of review in the remaining jurisdictions of Maryland and Washington, D.C.," he said.

Earnings up, PPL Seeking Rate Boost in Pa.

By Michael Brooks

PPL will file a base distribution rate case this year for its Pennsylvania business, CEO William Spence said during the company's fourth-quarter earnings call last week.

The company is also seeking rate increases for its regulated Kentucky operations, with the company asking for an additional $30 million annually from Louisville Gas & Electric customers and $150 million from Kentucky Utilities. Spence said he expects new rates, requested for infrastructure investments required for reliability and federal environmental regulations, to become effective July 1.

PPL reported earnings of $1.74 billion ($2.61/share) for the year versus $1.13 billion ($1.76/share) for 2013. The company's fourth-quarter earnings in 2014 were $695 million ($1.04/share), compared to the loss of $98 million (-$0.16/share) it posted for the same period in 2013.

Spence said the improvement was due to high returns on transmission investments in Pennsylvania and plant environmental projects in Kentucky, as well as increased utility revenues from price increases in the U.K.

Earnings from ongoing operations, however, remained flat from 2013. Higher earnings from the company's Pennsylvania and the U.K. segments were offset by lower than expected earnings in Kentucky. The company's total electric sales in the U.S. decreased by 3,769 GWh, or 6.2%, from 2013. Spence said that slow residential growth in rural Virginia and Kentucky played a large role in the decrease.

Schedule for LG&E and KU Rate Case

	Timing	Milestone
✓	01/08/2015	1st Request for information received
✓	01/23/2015	LG&E and KU responses filed
	02/06/2015	Supplemental request for information received
	02/20/2015	LG&E and KU responses filed
	03/06/2015	Intervenor testimony filed
	03/23/2015	Requests to intervenors submitted
	04/06/2015	Intervenor responses filed
	04/17/2015	LG&E/KU Rebuttal testimony filed
	TBD	Settlement conference
	TBD	Public meetings across the state
	04/21/2015	Public hearing in Frankfort
	TBD	Order issued (tentative)
	07/01/2015	New rates effective

✓ Completed

Spence said he is optimistic about the PJM market. "We see market reforms, such as PJM's proposed Capacity Performance product, the shift in the variable resource requirement curve and a recent increase in the offer cap, as constructive signals supporting the competitive power business in PJM for the future," he said.

Spence said that PPL's deal with Riverstone Holdings to spin off its generation supply business into Talen Energy was the company's top priority for 2015, but the company said little about it last week, citing a "quiet period" as it awaits a response on its filing with the Securities and Exchange Commission.

The company expects the deal to close on time in the second quarter this year. It accepted the Federal Energy Regulatory Commission's mitigation plan late last month and it expects approval with the Pennsylvania PUC and the Nuclear Regulatory Commission as it originally projected. (See *PPL, Riverstone Accept FERC Mitigation Plan on Talen Spinoff*.)

COMPANY EARNINGS

MISO

Despite Earnings Dip, Wisconsin Energy Charged up by Economy, Integrys Merger

By Chris O'Malley

Wisconsin Energy Corp. profits fell 16% in the fourth quarter on warmer weather and $6 million in costs related to its proposed acquisition of Integrys Energy.

The Milwaukee-based gas and electric utility earned $121.4 million ($0.53/share) versus $144.3 million ($0.63/share) in the fourth quarter of 2013. Revenue rose to $1.23 billion from $1.18 billion during the same quarter last year.

For the year, earnings rose 2%, to $588.3 million, or $2.59 a share — dinged 6 cents due to Integrys acquisition costs.

Full-year results were buoyed by colder weather in early 2014 that increased demand for natural gas. The utility also cited cost controls and lower employee health care costs.

During a Feb. 11 conference call with analysts, Wisconsin Energy Chairman and CEO Gale Klappa pointed to a 1.3% growth in electricity sales to large commercial and industrial customers, excluding iron ore mines.

Including mines, electricity deliveries in the sector rose 3.8%. "That's pretty strong industrial growth in 2014," he said.

Given the large uptick in 2014, the utility is projecting flat growth in the key large commercial/industrial segment in 2015, he added.

Integrys Deal Progressing

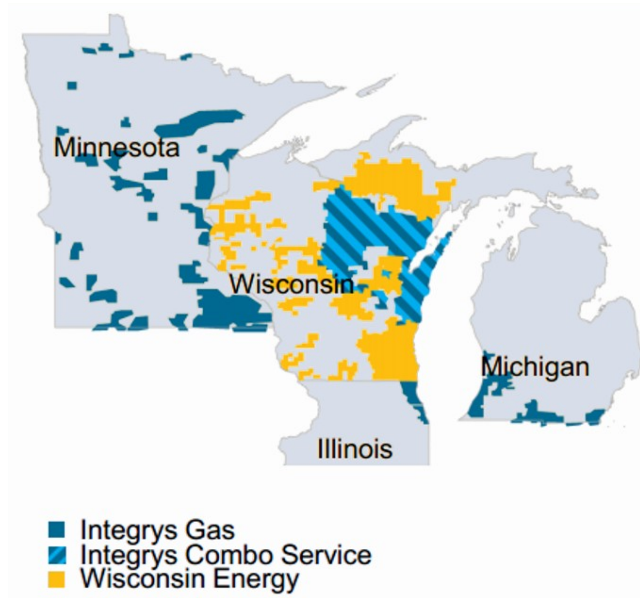
Wisconsin Energy's planned $9 billion acquisition of Chicago-based Integrys needs approval from regulators in Wisconsin, Michigan, Illinois and Minnesota.

The company cleared a big hurdle in January under a settlement with Michigan regulators, who dropped their objection to the acquisition.

Under the deal announced by Michigan Gov. Rick Snyder, Wisconsin Energy and Integry's Wisconsin Public Service would sell their electric distribution assets serving 28,000 Upper Peninsula residents to Upper Peninsula Power Co. That includes the 400-MW coal-fired Presque Isle generating station, which is operating under a costly system support reliability agreement (SSR) to prevent its retirement. UPPCO said it would "step into" exiting rates and that the SSR would be eliminated this summer, saving U.P. ratepayers from an estimated $97 million in annual SSR costs.

Pressed by analysts for more guidance on the timing of the merger, Klappa said the latest expected decision is likely to come from Illinois Commerce Commission on or about July 6.

"We're making very good progress on all regulatory fronts," he said.



The acquisition will result in a company with 4.3 million customers served by seven electric and gas utilities. The resulting WEC Energy Group will also own the nation's eighth-largest natural gas distribution operation.

Becoming a Bigger Transmission Player

The combined company also will own 60% of American Transmission Co., with Integrys currently holding 34% and Wisconsin Energy a 26% stake. ATC plans new investments between $3.3 billion and $3.9 billion through 2023.

Wisconsin Energy officials said they took an unspecified fourth-quarter reserve against an expected adjustment to return-on-equity rates for electric transmission operators in MISO.

Last June, the Federal Energy Regulatory Commission changed the way it sets ROE rates for electric utilities, tentatively setting the "zone of reasonableness" at 7.03 to 11.74%. Currently ATC has a base rate of 12.2%.

In addition to taking the fourth-quarter reserve, Wisconsin Energy has also embedded in its 2015 guidance slightly lower earnings in anticipation of an ROE ruling from FERC.

Company officials also provided stand-alone guidance for full-year 2015 earnings — excluding Integrys — at $2.67 to $2.77 a share. That assumes normal weather and excludes transmission-related costs.

Earnings for the first quarter of 2015 are projected by the company at 79 to 81 cents. That's lower than the 91 cents for the quarter last year, which benefitted from higher sales due to the polar vortex.

Capital Spending Drive

Klappa said Wisconsin Energy plans capital spending of $3.3 billion to $3.5 billion for 2015-2019.

Also, a rolling, 10-year capital spending plan of $6.6 billion to $7.2 billion is about $100 million more than previously estimated, he said.

Projects include an 85-mile natural gas pipeline project in the western part of Wisconsin. Capital spending of about $700 million in 2014 will rise to about $770 million this year, compared to an estimated $600 million to $650 million in 2016 and 2017.

"You'll see 2015 as being an outsized year for natural gas distribution spending," Klappa said.

Some of that is to supply natural gas to sand-mining operations in the state, which have flourished due to demand for the material in fracking. Wisconsin has become the No. 1 supplier of fracking sand.

Over time that capital spending will shift more toward electric infrastructure, which is aging, Klappa said.

COMPANY EARNINGS

Entergy Retail Sales Up 2.3% in 2014; Higher Growth Forecast Through 2017

Gulf's 'Industrial Renaissance' Cited

By Chris O'Malley

Entergy yesterday reported a drop in fourth-quarter earnings, but executives gave an upbeat outlook, citing stronger-than-expected growth in retail sales and forecasts of increasing demand as a result of the "industrial renaissance" in the Gulf.

The company posted fourth-quarter net income of $120.1 million, or 66 cents a share, down from $146.9 million, or 82 cents a share, for the same quarter in 2013. Entergy cited higher taxes and increased operating costs as a cause for the drop. But revenue grew by 5% to $2.83 billion, beating estimates of $2.7 billion.

For the year, retail sales grew by 2.3% versus a forecasted 1.9%. "Industrial sales led the way with 5% growth, beating our estimates of 2.8% by a wide margin," Entergy CEO Leo Denault told analysts during a Feb. 5 conference call. Chemicals, petroleum refining and pulp and paper were responsible for nearly 60% of the industrial growth.

While most of the increases came from existing customers, Entergy said it is also seeing increasing numbers of new customers, forecasting that retail sales will grow by 3.25 to 3.75% annually through 2017. "We continue to believe that Entergy has some of the best growth fundamentals in the business," Denault said.

Lake Charles Tx Project

Entergy cited that growth in a filing with MISO in December for out-of-cycle approval of a $187 million transmission project near Lake Charles, La., which the company says will be "one of the largest transmission projects in Entergy history."

News of the project, which will include new substations and 25 miles of 500-kV and 230-kV lines, sparked controversy among MISO transmission developers. Entergy requested expedited approval of the project, saying it needed to be started in the first half of 2015 for completion by summer of 2018, meaning that it would be built by Entergy and not considered for a competitive solicitation under the Federal Energy Regulatory Commission's Order 1000.

At MISO's Planning Advisory Committee meeting last month, several transmission developers questioned why Entergy had not announced the need sooner. (See *Entergy Out-of-Cycle Transmission Request Draws Competitors' Ire*.)

Entergy's footprint in the Gulf Coast includes fast growing petroleum refining, industrial gases and wood products.

Declining petroleum prices and cutbacks in drilling portend some reduction in growth among certain petrochemical customers, but the outlook for Entergy's core industrials remain robust, Entergy executives said.

Entergy Wholesale

Company executives said reduced drilling could increase natural gas prices, improving the margins for the company's nuclear power plants, which operate in competitive markets in New York and New England.

Executives said the Entergy Wholesale Commodities group also will benefit from ISO-NE's Forward Capacity Auction this week, which saw prices increase by about one-third. "We are seeing some positive changes in capacity markets," Denault added. (See *Prices up One-Third in ISO-NE Capacity Auction*.)

MISO Integration

Reviewing 2014 trends, he also pointed to Entergy's first year as part of MISO's new southern region. "Although the numbers are still estimates, it now appears that customers across the utility will in fact realize more MISO-driven savings than we had originally expected."

Arkansas Rate Structure

Entergy recently said it intends to file a new rate case in Arkansas, likely in March or April. It has been seeking regulatory changes from the state legislature that could boost earnings. "I would expect that we would [back] some legislation around this" soon, said Theo Bunting, group president of utility operations.

DTE Earnings Skyrocket; Pipeline Unit Promising Further Growth

By Chris O'Malley

DTE Energy's fourth-quarter earnings soared 141%, largely on growth in its non-utility operations.

The Detroit-based company serving 3.3 million gas and electric customers posted a profit of $299 million, or $1.68 a share, compared with $124 million, or 70 cents a share, for the fourth quarter last year.

DTE Electric's operating earnings in the fourth quarter rose 27%, to $128 million. DTE Gas operating earnings fell 40%, to $31 million.

But operating earnings of DTE Energy's non-utility units — gas storage and pipelines, power and industrial projects and energy trading — increased 70%, to $66 million.

For the full year, DTE Energy's net income rose 37%, to $905 million or $5.10 a share.

Full-year operating revenues were $12.3 billion, up 27% from 2013.

Upward Expectations

DTE Energy increased its 2015 operating earnings per share guidance to $4.48 to $4.72, from the $4.43 to $4.67 outlook provided in November. Most of that increase is predicated on higher-than-expected prospects in the non-utility segments of gas storage and pipelines, and power and industrial projects.

During a conference call with analysts on Feb. 13, DTE Energy Chief Executive Officer Gerard Anderson said the company was embarking on a "capital investment era."

DTE said its investments in non-utility units could amount to $1.5 billion to $1.9 billion in 2015-2019.

That includes DTE's participation in the Nexus Gas Transmission pipeline that will run from Michigan through northern Ohio

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COMPANY EARNINGS

ISO-NE

Eversource Energy Adds $900M to Transmission Budget

By William Opalka

Eversource Energy reported higher year-end earnings fueled by a strong fourth quarter and a drop in operating costs. The company (formerly Northeast Utilities) also announced a 30% increase in its transmission build-out program, adding $900 million to an existing commitment of $3 billion.

Eversource reported 2014 earnings of $819.5 million ($2.58/share) compared with 2013 earnings of $786 million ($2.49/share). Fourth-quarter earnings were $221.6 million ($0.69/share) compared with $177.4 million ($0.56/share) in 2013.

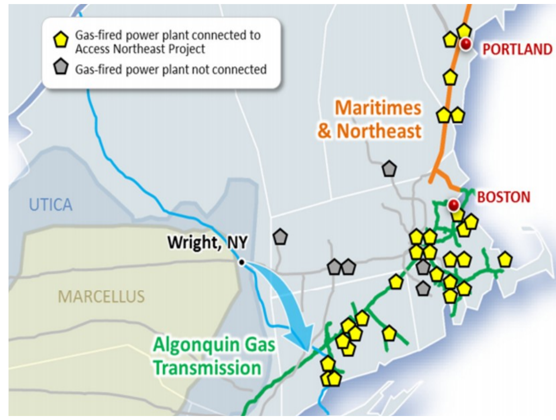
Excluding integration costs, Eversource earned $841.6 million, or $2.65 per share, in 2014, compared with $799.8 million, or $2.53 per share, in 2013.

The company began 2015 by announcing it was integrating Northeast Utilities' six affiliates into one company under the new name Eversource. It will take the new ticker symbol "ES" beginning Feb. 19. (See Northeast Utilities Rebranding as Eversource Energy.)

In a call with analysts, Chief Financial Officer Jim Judge denied that the name change suggested the company had plans to expand beyond New England. "It truly was trying to bring together six different operating companies — each of whom had their own identity or culture or brand," Judge said.

"It really was driven by that. The speculation about it being driven by an appetite to have a bigger footprint really isn't based on the situation here."

"Operationally and financially, we had a very strong finish to 2014, which provides us with considerable momentum heading into 2015 as we continue to address and resolve the most difficult energy supply challenges facing New England," said Thomas J. May, Eversource Energy chairman, president and chief executive officer.



Access Northeast Pipeline (Source: Eversource Energy)

Transmission Spending

The company last year spent about $723 million on electric transmission projects, including completion of most of its section of the Interstate Reliability Project in northeastern Connecticut, making its 2014-2018 projected total $4.6 billion.

Eversource and its partner, National Grid, were selected by ISO-NE on Feb. 12 over a competing proposal to enhance reliability in the suburbs north of Boston and into New Hampshire. The $739 million AC Plan will use 25 miles of right-of-way and bury another 16 miles of cable.

Northern Pass

Company officials told an analysts call last week that the draft environmental impact statement from the U.S. Department of Energy for the $1.4 billion Northern Pass transmission project is expected in April. The 187-mile project would bring 1,200 MW of hydroelectric power from Hydro Quebec into New Hampshire, with an in-service target of the second half of 2018.

"We've made great progress with Hydro Quebec," May said. "They've started very aggressively in Canada licensing their side of the line."

However, its route, already reconfigured, cuts through the White Mountains and has drawn fierce opposition.

Access Northeast

Separate from its electric infrastructure expansion, Eversource in 2014 partnered with Spectra Energy to propose the $3 billion Access Northeast pipeline expansion that would secure supplies to 5,000 MW of power generation. A tax proposed by New England governors to fund the project has run into political headwinds. Open season is expected this spring and operations are planned for November 2018.

MISO

DTE Earnings Skyrocket; Pipeline Unit Promising Further Growth

Continued from page 5

and then south to the border of the West Virginia panhandle.

The 250-mile Nexus will tap into shale gas production in the tri-state region. DTE, which is partnering on the pipeline with Spectra Energy, said it has made a pre-filing submission with the Federal Energy Regulatory Commission and has engaged an engineering firm.

Anderson said gas and pipeline operating earnings, which totaled $82 million in 2014, could grow to $145 million by 2019.

The company also has been investing in generation, including plans to acquire the 732-MW Renaissance power plant in Carson City, Mich., for $240 million.

Anderson said that MISO planning has shown a 900-MW summer capacity shortfall in Michigan. He noted that Gov. Rick Snyder recently called for Michigan to develop a comprehensive energy policy this year.

In December, DTE filed its first electric rate case in four years. If approved as proposed, the average residential customer would pay $3.25 more a month, or about a 1.5% increase annually.

ISO-NE NEWS

ISO-NE Capacity Prices Likely to Fall in Future

By Rich Heidorn Jr.

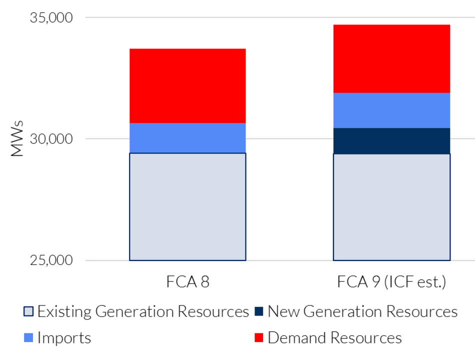
The 36% increase in prices in last week's ISO-NE capacity auction likely represents the peak for the foreseeable future, analysts say.

The ninth Forward Capacity Auction cleared at $9.55/kW-month — up $2.52 over FCA 8 — outside of the Southeastern Massachusetts-Rhode Island (SEMA) zone, where prices were administratively set at $17.73/kW-month for 353 MW of new resources and $11.08/kW-month for 6,888 MW of existing resources.

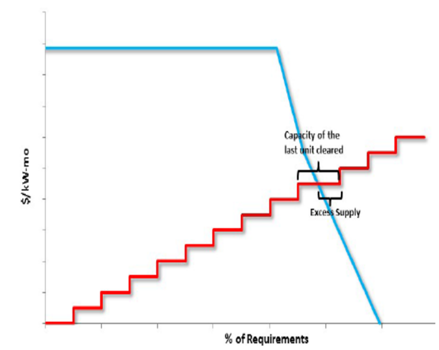
The auction cleared about 1 GW of new generators, which can lock in their initial prices for seven years. During the lock-in period, they take a place at the bottom of the supply stack as zero-bid price takers.

"All else being equal, we believe that in the upcoming auction … the clearing price will decrease and will be set by the de-list bids of existing generators," analysts for ICF International said, estimating that about 300 MW of excess supply cleared the auction. "Assuming no change in any parameters from FCA 9 … the maximum impact of the excess capacity in FCA 10 prices will be around $2/kW-month. Depending on the de-list bids, the impact may be less."

FCA 8 vs. FCA 9



FCA 9 Supply/Demand Curves



FCA 9 at a glance. (Source: ICF International)

Analysts for UBS Securities agreed that last week's results "[signify] the near-term 'top' of this market."

"We estimate next year's auction could tentatively be in the ~$6-7/kW-month range … seeing this as the level at which transmission backs out of the auction (1.028 GW of [New York] imports cleared at $7.97/kW-month) as well as expecting a continued decline in demand response," UBS said.

They also predict that prices in the SEMA region will converge to the pool-wide average as the zone around Boston did this year.

Transmission Didn't Clear Auction

Analysts said it appeared no transmission cleared last week. "It may be that the combination of transmission and generation costs are too high, the volumes required might be

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Exelon, LS Power Join CPV in Adding New England Capacity

By William Opalka

New generators from Exelon, LS Power and Competitive Power Ventures were the apparent winners in New England's capacity auction last week, while NRG Energy and Public Service Enterprise Group walked away empty handed.

ISO-NE's ninth Forward Capacity Auction added more than 1,000 MW of gas generation to the region's mix. Two of the sites are expansions of existing power generation facilities and the third, and largest, is a greenfield site that has been slated for development for at least 16 years. (See *Prices up One-Third in ISO-NE Capacity Auction*.)

The new resources are a 725-MW combined-cycle resource in Oxford, Conn., under development by Competitive Power Ventures, and Exelon Generation's two-unit 195-MW CT in Medway, Mass., according to the companies.

Analysts agree that LS Power, with two 45-MW combustion turbines in Wallingford, Conn., was the other successful bidder. LS Power did not return telephone calls seeking comment.

Analysts at ICF International called the new generation a validation of ISO-NE's Pay-for-Performance program, which increased both performance expectations and penalties for plants that fail to deliver power when called. "The restructured capacity market is working," ICF said. "Since 2002, most of the capacity additions in ISO-NE have either been sponsored by a state or driven by administratively set prices. FCA 9 is the first auction with major economic capacity additions."

All of the new generators are believed to have dual-fuel capabilities, meaning they should be able to operate even if they cannot obtain natural gas.

PSEG, NRG Units Did not Clear

PSEG confirmed that its proposed 475-MW combined-cycle plant at its existing Bridgeport Harbor Station site had not cleared and analysts for UBS Securities said it appeared NRG's proposed 340-MW combined-cycle repowering of its Canal Generating Station also failed to clear.

UBS said NRG still may develop the Canal plant, possibly aided by bilateral contracts with local municipal utilities. The site is in the Southeast Massachusetts-Rhode Island (SEMA) zone, which failed to procure enough capacity resources for the 2018/19 commitment period.

PSEG said that although its Bridgeport plant did not clear in FCA 9, it will continue development work and seeking community ap-

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ISO-NE NEWS

ISO-NE Capacity Prices Likely to Fall in Future

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high or additional incentives associated with potential new CO_2 regulations may be required to improve the economics of transmission projects," ICF said. "Alternatively, some transmission projects may not have qualified."

UBS said merchant transmission is a potential "wildcard" for future auctions, saying a project such as Eversource Energy's (formerly Northeast Utilities) Northern Pass could offset as much as 400 MW of supply.

Demand Response Continues Contraction

Demand response, which cleared 3,041 MW in FCA 8, fell to 2,803 in last week's auction, a drop of about 238 MW, or 8%, analysts said. ICF said about 600 MW of existing DR was de-listed while 367 MW of new DR resources — believed to be energy efficiency — cleared.

DR has been on a steady decline in New England's capacity market since peaking at 3,645 MW in FCA 6.

In contrast, ICF said there appeared to be no significant de-listing of existing generators, indicating that their de-list bids were below clearing prices.

"This implies that existing generators believe that capacity prices are high enough to offset potential penalties from underperformance under the [Pay-for-Performance program] or that penalties will be adequately compensated by credits for performance under scarcity conditions," ICF said.

Correction

RTO Insider incorrectly reported Feb. 3 that ISO-NE modeled Southeastern Massachusetts/Rhode Island (SEMA/RI) as an import-constrained zone in FCA 8. SEMA/RI was not modeled in last year's auction.

Exelon, LS Power Join CPV in Adding New England Capacity

Continued from page 7

provals to "allow us to be ready when and if the markets indicate support for this investment in the future."

CPV Site's Long History

The site of CPV's Towantic Energy Center in Oxford has a rather storied history. First proposed in the 1990s, the site appeared ready to be developed more than a decade ago until the bankruptcy of Calpine scuttled the plan. Rights to the plant were acquired by General Electric in 2007, which designed the current configuration. It is a partner in the plant with CPV.

The site was fully permitted in 1999 for a 512-MW plant. Plans that call for a larger footprint have sent the project back before the Connecticut Siting Council.

CPV spokesman Braith Kelly said the company fully expects the project to be completed on time when the capacity commitment period starts on June 1, 2018.

"The technology is greatly improved from the time of the previous permits, so the environmental impact will be even less than before," he said.

However, an active citizen group has been opposed to the plant, citing environmental and health concerns.

Delays, if they occur, would not necessarily impair the company's standing in the ISO-NE market.

Towantic Energy Center (Source: CPV)

"A resource delayed for reasons beyond its control (one example could be lawsuits that delay the issuance of needed permits) can go to [the Federal Energy Regulatory Commission] and request a one-year deferral of its capacity supply obligation," said Marcia Blomberg, a spokeswoman for ISO-NE.

She also said a resource that cannot meet its schedule can trade out of its obligation through annual and monthly reconfiguration auctions leading up to each capacity commitment period.

"Or it can make a bilateral trade with another resource. This is the most likely path to be taken by resources that are delayed for some reason," she added.

Peakers

The successful peaking units likely wouldn't face the challenges CPV has, as they are expansions of existing sites.

However, last year it reached an agreement with Wallingford, Conn., to add two peaking units to its existing array of five 50-MW units. The town owns and operates its own municipal electric system and leases the power plant site to LS Power. The company bought the generating plant from Pennsylvania-based PPL in 2011.

Exelon said both of its Medway units will run mainly on natural gas but will have the ability to run on ultra-low-sulfur distillate fuel oil as a back-up. ISO-NE has been encouraging the development of dual-fuel-capable generation to ease natural gas pipeline constraints during the winter.

Exelon said it is currently in the permitting phase for the Medway expansion. Construction is expected to begin in 2017 and be completed by mid-year 2018.

The company currently owns and operates approximately 2,200 MW of both combined-cycle and peaking generation in the Boston area, including the existing three-unit, oil-fired 117-MW peaking facility in Medway.

The Medway facility also is in the generation-short SEMA zone.

UBS estimates the plant, expected to cost about $150 million, will generate $35 million to $40 million in incremental cash flow, based on the $17.73/kW-month clearing price, adding 2 cents per share to Exelon's earnings.

MISO NEWS

Stakeholders Again Light up MISO over Support for Entergy Out-of-Cycle Upgrade

By Chris O'Malley

MISO planners recommended Wednesday that Entergy's request for a $187 million transmission upgrade near Lake Charles, La., be sent up the line for consideration by the RTO's board, despite continued objections from transmission developers.

"I know there are some contentious issues around this," Jeff Webb, MISO's director of planning, acknowledged shortly after opening a discussion of the project at a meeting of the South Technical Study Task Force in Metairie, La.

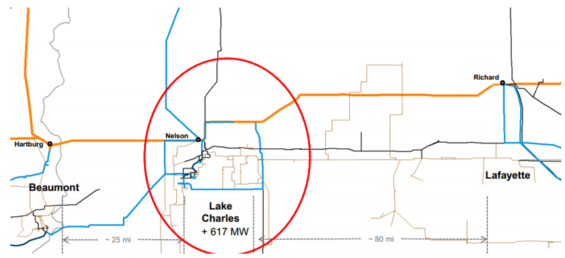
On Dec. 15, Entergy Gulf States Louisiana filed an out-of-cycle request with MISO, saying the need for the transmission upgrade was identified on Dec. 1. Entergy told MISO that increased industrial demand for power requires it complete the Lake Charles project by June 2018.

The company requested that the project be treated as an out-of-cycle project outside of the usual MISO Transmission Expansion Planning (MTEP) process and the competitive solicitation rules under the Federal Energy Regulatory Commission's Order 1000.

At MISO's Planning Advisory Committee meeting Jan. 28, transmission developers questioned the timing and motives behind Entergy's request, which would deny them a chance to compete for the project. (See *Entergy Out-of-Cycle Transmission Request Draws Competitors' Ire*.)

Webb started last week's meeting by spending more than 30 minutes explaining MISO's transmission planning rules, which limit out-of-cycle requests to reliability projects identified after the submittal cut-off date of the prior annual MTEP cycle with a need date within three years of the request date and expected in-service date within four years.

"We see the [Lake Charles] projects as fitting [the out-of-cycle] requirements," Webb said.



MISO planners said Entergy's Lake Charles proposal is superior to alternatives the RTO considered, including routing power from Beaumont, 35 miles to the west or Lafayette, 50 miles to the east. (Source: MISO)

Stakeholders Dubious

But, as during last month's PAC meeting, stakeholders questioned how Entergy could only recently decide it needed the project and whether it needed to be done on a fast-track outside the MTEP.

A representative of NRG Energy asked Webb whether MISO had done any due diligence or simply took Entergy's word "at face value."

MISO officials replied that they are aware of substantial growth in the Gulf Coast region and that Entergy's Module E load forecast data was consistent with the amount of load growth that's been represented in the Lake Charles project. It would include two new substations, expansion of another and 25 miles of 500-kV and 230-kV transmission.

Edin Habibovic, manager of expansion planning at MISO, said that between MTEP 14 and MTEP 15, an additional 617 MW of growth was identified. Without upgrades, the increased loads could result in North American Electric Reliability Corp. violations due to overloaded transmission lines and voltage issues, Habibovic said.

George Dawe, vice president of Duke American Transmission, said evidence provided by Entergy amounts to anecdotal information.

"In our view, what's the urgent need? I don't see it anywhere. … It's not a baseline reliability project," Dawe said.

MISO officials said they have talked with Entergy's industrial load customers, but that the customers haven't been transparent about the timing of their power needs. Habibovic said obtaining detailed demand information from individual industrial companies is challenging in part, because they often make decisions at the last minute.

That wasn't good enough for Dawe.

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MISO Tx Customers: FERC Erred in Membership Adder Ruling

The Coalition of MISO Transmission Customers (CMTC) has asked the Federal Energy Regulatory Commission to reconsider its approval of a 50-basis-point incentive adder for MISO membership.

FERC conditionally approved the adder last month, saying that the resulting base return on equity must be in the zone of reasonableness — 7.03 to 11.74%. The commission said that industrial customers, including the CMTC, had failed to provide sufficient evidence for their argument that TOs did not need an incentive to remain in the RTO. (See *MISO TOs Can Collect Membership Adder — Once Base ROE is Found Just*.)

In its rehearing request, the coalition said that FERC's ruling violated Section 205 of the Federal Power Act, which holds that the burden of proof in a ROE-related filing falls on the filers, not the complainants. FERC "not only failed to hold the MISO [transmission owners] accountable for demonstrating that the RTO adder in this case is just and reasonable, but also effectively, and erroneously, shifted the burden onto protestors to show that the RTO adder is unjust and unreasonable," the coalition said (ER15-358).

MISO TOs requested the adder last November. Industrials criticized the adder as an attempt to hedge against a potential decrease in the TOs' base return on equity, which industrials have contended is too high. Settlement talks between the TOs and industrials broke down in December.

A FERC administrative law judge issued a schedule last month calling for written testimony beginning Feb. 23, with hearings beginning in August (EL14-12). (See *ROE Talks Between MISO Industrials and TOs Collapse*.)

Cruthirds At Large

News & Commentary

By David L. Cruthirds

David Cruthirds brings this report from the Gulf Coast Power Association's Feb. 5 special briefing: "Challenges & Changes in Energy on the Bayou." Among the topics discussed were Entergy's growth plans, Year 1 in MISO South and the RTO's ongoing seams battles.

NEW ORLEANS — Entergy Louisiana CEO Phillip May talked about Louisiana's industrial growth, saying Entergy will need to build or acquire additional generation to serve 1,700 MW of new load by 2017. He noted Entergy is reviewing bids for long-term resources in one request for proposal (RFP) and expects to issue one or more RFPs in the future. May said declining reserve margins in MISO North/Central are expected to absorb the excess generation capacity in MISO South, so Entergy would need new steel in the ground, whether in the form of self-build projects or long-term power purchase agreements (PPAs).

May said Entergy's needs also would be impacted by expiring PPAs and possible generation retirements.

May also said the company needs to be able to act quickly. He noted it took three years to construct the recently completed Ninemile Unit 6 combined-cycle project, but the overall process took six years, including the time for the RFP and permitting. Entergy is evaluating ways to accelerate that process, he said.

Louisiana Public Service Commissioner Eric Skrmetta also talked about Entergy's growth plans. (See related stories, *Stakeholders Again Light up MISO over Support for Entergy Out-of-Cycle Upgrade*, p. 9, and *Entergy Retail Sales Up 2.3% in 2014; Higher Growth Forecast Through 2017*, p. 5.)

Comment – Skrmetta and May provided interesting perspectives on plans to build new generation to serve growing loads in Louisiana. Skrmetta's view was that Entergy would be building the new generation itself, while May was careful to say the company would be issuing RFPs to measure bids against self-build projects. The Louisiana PSC requires jurisdictional utilities to test self-build proposals against the market under the oversight of an independent monitor, but the "market-based mechanism" rules were adopted years ago and none of the current commissioners are very strong supporters of wholesale competition.

Entergy's comments on recent earnings calls clearly indicate the company plans to meet its ambitious earnings growth targets by building the new generation itself, so the company likely will structure its RFPs in a way to favor its self-build projects. Entergy single-handedly decimated the once-thriving merchant sector in its footprint through its "market foreclosure" strategy, prompting the U.S. Department of Justice to conduct an as-yet unresolved investigation of the company's transmission and power-procurement practices. As a result, there aren't any merchants left to compete, and non-affiliated suppliers know of Entergy's predisposition toward self-dealing, so no one should expect very robust participation in the upcoming RFPs. That increases the chances that Entergy's self-build proposals will "win" upcoming RFPs.

Skrmetta Throws down Gauntlet on FERC and MISO

The outspoken Skrmetta came out swinging with his opening keynote speech at the briefing. Skrmetta, who defeated challenger Forest Wright in a hotly contested and closer-than-expected run-off last December,

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Stakeholders Again Light up MISO over Support for Entergy Out-of-Cycle Upgrade

Continued from page 9

"A normal planning process has been thrown out the window," he said. "It's not a defined new load addition. It speculates on future economic development."

Webb replied that if MISO ran the proposed project through the developer selection process, it would not meet Entergy's deadline.

"We can't risk going through that process and speculate that Entergy is wrong here — that the process could be done in two years versus two and a half years."

MISO will not let the planning process stand in the way of needed transmission, he added, saying that's why FERC allows exceptions to the competitive process under Order 1000.

No Attractive Alternatives

Habibovic said MISO has looked at alternatives to Entergy's proposal to meet the increased demand, including routing power from Beaumont, 35 miles to the west in Texas, and from Lafayette, 50 miles to the east. Also modeled was an update of existing 230-kV lines.

He said the alternatives presented a number of problems, including reliability issues during construction, right-of-way challenges and high-impedance issues.

Kip Fox, director of transmission strategy and grid development at American Electric Power, asked if MISO reviewed recent public filings of electric customers who have deferred plant expansions. Other stakeholders cited reports that the drop in petroleum prices has put some liquefied natural gas projects in the Gulf region in limbo.

An Entergy representative replied that the timing of plant expansions can be volatile. Even if industrials delay a project, the need often resurfaces within a few years' time, he said.

Cost-Overrun Concerns

Stakeholders also asked whether MISO had conducted due diligence on Entergy's estimated costs for the project, questioning whether the $187 million price tag may grow.

Webb responded that most state regulatory agencies have provisions to deal with cost escalation and require utilities to justify overruns.

Board Consideration

Entergy's out-of-cycle request will be discussed again at MISO's Feb. 18 PAC meeting. It would then proceed to the System Planning Committee of the Board of Directors, likely in March, with potential consideration by the full board in April.

Overshadowed at the Metairie task force meeting by the Lake Charles discussion was a recommendation to approve five other out-of-cycle projects in the region, the largest at $10.3 million.

Cruthirds At Large

Challenges & Changes in Energy on the Bayou

Continued from page 10

attacked the Federal Energy Regulatory Commission and the Environmental Protection Agency, saying that the federal government is trying to supplant the state's authority.

Skrmetta wasn't alone in his criticism of the federal government. Some speakers questioned the impact the EPA's proposed carbon emission rules would have on Louisiana's industrial renaissance. Baker Botts lawyer Pam Giblin lamented the "meteoric shower" of EPA air emission regulations that likely will be extended to the chemicals, oil and gas sectors "if the EPA gets away with it" in the power sector.

In later remarks, Skrmetta turned his attention to MISO's transmission cost allocation policies, noting Louisiana is expected to export a significant amount of power to the RTO's North and Central regions because environmental regulations are expected to leave them 2.6 GW short of generation, while Louisiana is expected to have a surplus of the same amount. Skrmetta wants to make sure those who benefit from those imports pay their share of the estimated $1.25 billion of transmission investment needed.

MISO CEO John Bear countered in a subsequent talk that low-cost wind generation from MISO North/Central is lowering energy costs in states without renewable mandates such as those in MISO South. Bear contended that consumers in those states shouldn't object to paying their share of transmission needed to obtain wind generation.

Skrmetta acknowledged the MISO relationship has been beneficial to Louisiana, but he said MISO needs to be more cognizant of the Louisiana PSC's jurisdiction, calling that a "paramount concern." He called on MISO to have more interaction with the commission and its staff, noting that the PSC is "laser-focused on serving consumers" rather than on executing federal programs. Skrmetta cautioned that the long-term success of MISO's relationship with Louisiana requires "great deference" by MISO to Louisiana's goals and objectives.

MISO South 'Year in Review'

Bear was the keynote speaker following lunch, providing MISO's views on a number of topics.

Bear said MISO's surplus generation margins meant the RTO didn't need to move very quickly in the past, but shrinking margins as a result of the EPA rules and issues that arose during last year's polar vortex are forcing it to reexamine its processes and respond much faster.

Bear also provided a recap of the first year for MISO South, saying things went well overall, but that MISO needs to continue to improve and examine its processes, especially for transmission planning. He said the net economic benefits for MISO South during the first year were 50 to 60% more than initial projections of $524 million.

Lauren Seliga, a MISO analyst for Genscape, provided a very interesting recap of power trading, pricing, flows and market barriers during the first year of MISO South's integration. Contrary to the expectations of many, she said power flowed from MISO North/Central to MISO South more often than South to North. She said the MISO-SPP seams dispute is a significant barrier to trading and efficient power flows, but that the scheduled March 1 launch of market-to-market integration should help. (See *SPP, MISO Move Ahead on Flowgate Rules*.)

Patton Slams Seams Management

Bear tiptoed around the ongoing seams disputes with MISO's neighbors, asserting the disputes are driven by fundamental differences between organizations that are equally convinced they have the best models. He acknowledged the need to compromise and resolve the disputes, and that he expects a settlement on the MISO-SPP dispute to be reached this summer. (See *MISO Seeks FERC Review on 'Hurdle Rate' for SPP Seam*.)

MISO Independent Market Monitor David Patton was extremely critical of the way the MISO-SPP seams dispute has been handled, scoffing at the notion that operational transmission congestion was the problem. Patton said it is very clear the issue is a "generation imbalance" situation between MISO North/Central and MISO South rather than physical congestion on the grid. Patton was very critical of the "completely ridiculous" constructs approved by FERC, calling the situation a "nightmare" that likely would get worse. Patton said there is "nothing physical" about the MISO-SPP constraint, asserting it is "totally fictional" to describe it as "congestion."

Patton also criticized SPP for trying to get MISO to pay for SPP's embedded transmission costs. He lamented that the current construct is undermining reliability based on a cost dispute. Patton said the "hurdle rate" approach helped, but the $10/MWh hurdle rate isn't economically efficient and leaves a lot of savings on the table. He said raising the hurdle rate to $40/MWh would totally shut down flows and hurt customers.

Patton went on the attack again by sharply criticizing MISO's lack of progress on transitioning to a capacity market that would send price signals for where new generation and transmission upgrades are needed. Patton acknowledged the opposition to capacity markets in MISO, but he also blamed FERC for not clearly addressing and providing guidance on capacity market issues.

Load Pockets Generate Discussion

Bear said MISO is performing economic studies to address the WOTAB (West of the Atchafalaya Basin) and Amite South load pockets in Louisiana. He said high "voltage and local reliability" (VLR) payments (known in some regions, including PJM, as reliability-must-run generation) prompted MISO to study whether transmission upgrades to address those areas would be economical. He said MISO sees $70 million in uneconomic generation dispatch costs, but the transmission upgrades don't appear to be economic based on the current analysis. MISO expects to finalize its recommendations later in 2015.

Patton agreed that the make-whole VLR payments probably don't justify transmission investments, which leaves the regions vulnerable to reliability risks because of their reliance on old, inefficient generation, he said. Patton said the situation "cries out for a market solution" rather than MISO's transmission planning approach. MISO needs to develop a 30-minute planning reserve product that would attract developers to build new gas-fired combustion turbines in the load pockets, he said.

Jennifer Vosburg, NRG Energy's senior vice president for the Gulf Coast Region, said that the load pocket issues aren't new, but — "setting aside the lack of historical transmission investment by Entergy" — transmission may need to be built for the long-term. She agreed with Patton's concern about the cost and risk to ratepayers if the problems are solved by utility self-build generation.

Can't get enough Cruthirds? Click here for a more detailed account of the GCPA conference.

NYISO NEWS

NYISO: We'll Cooperate with PSC Review

Governance, Market Design Changes Possible

By William Opalka

Cuomo

NYISO last week defended itself against criticism from New York Gov. Andrew Cuomo but said it will cooperate with a review by state regulators that could result in changes to the ISO's governance and market design.

Cuomo called last month for the Public Service Commission to review the ISO, saying its market design is at odds with his administration's Reforming the Energy Vision initiative, which seeks increased deployment of distributed resources and clean energy. Cuomo also called for more public and consumer representation on the ISO's board of directors.

The review was proposed in the 548-page 2015 Opportunity Agenda, a companion document to the state budget that outlines state policy goals.

"The development of cleaner energy resources requires proper price signals at both retail and wholesale levels and a marketplace that recognizes their value. The current wholesale market structure is not designed for, nor may be well suited for, the proliferation of clean distributed energy resources. The evidence lies in the limited deployment of demand response in the wholesale energy and ancillary services markets and the eroding penetration of demand response in the capacity market. Renewable energy resources also face financial difficulty operating within the current wholesale market structure," the agenda said.

"In designing and administering the wholesale markets, NYISO makes decisions that can have profound impacts on New York's electricity prices and energy resource mix, and thus on consumers, the economy and the environment. However, NYISO's board of directors does not have adequate public and consumer representation and are not subject to the same transparency standards as other governmental organizations."

Review 'Prudent'

James Denn, a spokesman for the PSC, said a review is "prudent policy and practice" as it seeks to align the operation of the wholesale electricity market with REV.

He also alluded to the PSC's opposition to NYISO actions that have raised rates. The most recent is the creation of a capacity zone in the counties north of New York City that NYISO proposed and the Federal Energy Regulatory Commission approved. Consumers were hit with higher costs, which NYISO said was necessary to send price signals to power generators to encourage plant construction in the region to alleviate a transmission bottleneck.

"The commission regularly reviews market issues and has successfully argued to FERC for changes that have saved ratepayers hundreds of millions of dollars, such as the 2011 reversal of a FERC decision regarding the NYISO demand curve," Denn said. "Our recent experience fighting the new capacity zone in the lower Hudson Valley has raised serious questions as to whether there are underlying governance and market design problems at the NYISO that if fixed would avoid similar problems in the future."

The review, which has no deadline, could include recommendations for legislative changes.

Strong Relationship

NYISO spokesman David Flanagan said the ISO will cooperate with the PSC inquiry. "We look forward to continuing our strong relationship with the Public Service Commission and building on the NYISO's 15-year track record of open collaboration with our regulators and stakeholders as markets and innovative technologies continue to evolve," he said. "We are proud of the significant value the NYISO provides to consumers through unmatched system reliability, efficient wholesale energy markets and long-term planning."

"NYISO's board of directors does not have adequate public and consumer representation and are not subject to the same transparency standards as other governmental organizations."

New York Gov. Andrew Cuomo's 2015 Opportunity Agenda

NYISO NEWS

Ginna Nuclear Plant Wins Contract to Keep Operating

By William Opalka

The owner of the R.E. Ginna nuclear power plant announced an agreement with Rochester Gas & Electric on Friday that will keep the plant operating for another three and a half years with fixed monthly payments of about $17.5 million.

The New York Public Service Commission in November ordered a reliability support services agreement between the Rochester utility and plant owner Constellation Energy Nuclear Group in an effort to save the 580-MW generator on Lake Ontario. NYISO and RG&E said the plant is needed until at least 2018 to maintain system reliability in western New York.

RG&E estimates an average residential customer using 600 kWh a month will see bills rise about 4.2%, or about $3.89. The exact amount will depend on the monthly output of the plant and changes in wholesale energy and capacity market prices.

RG&E will recover some of its $17.5 million in monthly payments through its share of the plant's "applicable revenues": 85% of energy and capacity sales and 100% of ancillary services.

The companies originally faced a Jan. 15 deadline to complete talks for the agreement. Two extensions were granted by the PSC while negotiations continued until Friday. The agreement, which was also filed with the Federal Energy Regulatory Commission, runs from April 1 of this year to Sept. 30, 2018.

"The RSSA will ensure grid reliability in the greater Rochester area while RG&E completes a host of necessary transmission and distribution upgrades," Exelon said in a statement. "In addition, the agreement protects 700 facility jobs, up to 1,000 skilled contractor jobs and critical tax revenue for Wayne County and the region."

RG&E CEO Mark Lynch said the company "worked diligently in the best interests of our customers to reach an agreement with Ginna, recognizing the importance of ensuring reliable service on reasonable terms for all parties."

The agreement is subject to approval by the PSC and FERC.

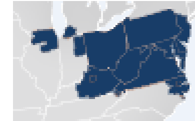
"The focus of PSC's in-depth review will be to ensure that the reliability of the electric grid is maintained," PSC spokesman James Denn said in a statement. "This review will include a significant opportunity for public and stakeholder comment and input."

RG&E, a subsidiary of Iberdrola USA, has the right to terminate the agreement early with 12 months' notice. The proposed end date in late 2018 is when a transmission upgrade in western New York is scheduled to go online. That project is intended to provide enough energy into the RG&E service territory without Ginna.

The agreement could be extended for 18 months if RG&E gives notice by Jan. 30, 2017.

Constellation, a unit of Exelon, said the plant has lost $100 million over the past three years and would be mothballed without better financial terms.

PJM NEWS



Dynegy, PJM IMM Reach Settlement on Duke, Energy Capital Partners Deal

By Ted Caddell

Dynegy has reached a settlement with PJM's Independent Market Monitor to alleviate market power concerns over its purchase of 12,400 MW of generation from Duke Energy and Energy Capital Partners.

In an agreement filed Feb. 6 (EC14-140), Dynegy said it would not buy any of the plants that will come on the market as a result of the PPL-Riverstone Holdings spinoff to form Talen Energy.

Additionally, Dynegy committed to offer all of its units into PJM capacity market auctions and promised it wouldn't retire any units unless they failed to clear. It also promised to enter such plants into reliability-must-run agreements if PJM decided they were necessary. The settlement also contained commitments concerning energy and ancillary services offers, which Dynegy said would be good for seven years.

Dynegy is hoping to acquire 11 Duke generating units in the Midwest and 10 Energy Capital Partners generators in the Midwest and New England. Dynegy would gain about 9,000 MW in PJM, boosting it to more than 10,700 MW and eighth in generation share in the RTO. (See *Dynegy Back in the Game with Duke, ECP Acquisitions.*)

In their application for approval of the purchase, the companies told the Federal Energy Regulatory Commission that Dynegy's 6.5% share of the PJM market post-acquisition would have a minimal impact on competition.

The settlement was filed along with a response to a Jan. 16 deficiency notice in which FERC said that the applicants had not addressed all of the commission's competitive concerns.

The response included market power analyses it said proved that the transactions "will not have an adverse effect on competition" in PJM or any PJM submarket.

Noting that the Monitor was the only intervenor to raise competitive concerns in PJM, the companies asked FERC to approve the deals by April 1. Dynegy said additional delays would cost it $1 million a day in financing costs, impact outage coordination activities needed to prepare for summer operations and threaten the consummation of the deal.

FERC Rejects Fee on Greenfield Transmission Projects

PJM's proposal to exempt transmission upgrades under $20 million from a $30,000 study fee is unduly discriminatory, the Federal Energy Regulatory Commission ruled Friday.

While the ruling (ER15-639) would seem to be a victory for non-incumbent developers, two non-incumbents, LS Power and ITC Holdings, had asked FERC to approve the PJM filing, the result of a compromise Members Committee vote in November. (See *PJM Independent Transmission Cos. Win Concession on Project Evaluation Fees*.)
LS Power proposed the compromise after an earlier proposal, which would have charged only new "greenfield" transmission facilities, fell short of a two-thirds majority. The proposed compromise would have assessed the fee on upgrades of $20 million or more as well as all greenfield transmission proposals.

LS Power and other non-incumbent transmission developers had contended the original proposal was unfair because it applied to greenfield projects only.

PJM officials said that upgrades by transmission owners typically did not require the intensive engineering analysis that the fee is intended to pay for.

The Members Committee approved LS Power's compromise with an 84% sector-weighted vote.

But the commission ruled that PJM failed to show that the costs of studying transmission owner upgrade proposals with estimated costs under $20 million would be different than the costs of studying greenfield projects with similar costs.

"Even though PJM's proposal represents a compromise among stakeholders, PJM's proposal is inconsistent with the requirements of Order No. 1000," the commission said.

Bill Halting Dominion Rate Reviews Passes Va. Legislature

The Virginia General Assembly passed a bill Thursday that would temporarily suspend the State Corporation Commission's biennial review of Dominion Virginia Power's base rates.

SB 1349, introduced by Republican Sen. Frank Wagner, was written with help from Dominion. It would freeze the utility's base rates while preventing the SCC from reviewing those rates after the scheduled 2015 review until 2020.

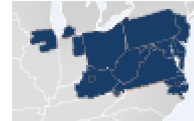
Dominion would still be able to request increases for fuel and infrastructure costs. It has already promised not to pass along $85 million in fuel costs to ratepayers as part of its support for the bill.

The bill passed the state Senate 32-6 on Feb. 6 before clearing the House of Delegates 72-24 last week. Support and opposition to the bill were both bipartisan. The bill now goes to Gov. Terry McAuliffe (D), who can veto it, though under Virginia law the legislature may override the veto with a two-thirds majority in each house.

Wagner has said he introduced the bill to prevent rate increases that would occur due to coal retirements under the U.S. Environmental Protection Agency's proposed carbon emissions rule, called the Clean Power Plan. Wagner was among 11 senators who owned stock in Dominion, but earlier this month he told the Associated Press that he sold it because he didn't want to be perceived as profiting from the bill.

State Attorney General Mark Herring (D) has come out against the bill, as have consumer advocate and environmental groups. The Sierra Club, however, dropped its opposition after Dominion promised to invest in 500 MW of solar generation.

PJM NEWS



Members Dispute PJM, IMM on Unfinished Changes to Notification, Start-Up Times

By Rich Heidorn Jr.

VALLEY FORGE, Pa. — An attempt by PJM officials and the Independent Market Monitor to complete what they called unfinished business ran into a roadblock last week as several stakeholders questioned their authority, saying members should consider a new problem statement.

Officials are seeking manual changes to document rules on generator notification and start-up times they said had been authorized by members — but never implemented — in 2012.

The issue dates to a January 2011 problem statement to address reliability and market implications of generators' desire to "de-staff" little-used units during the spring and fall shoulder months. At the time, there were no market rules governing start time and notification time parameters.

PJM and the Monitor said the Operating and Market Implementation committees approved rule changes in 2011 and 2012 but that manual changes endorsed by the Markets and Reliability Committee in June 2012 implemented only part of the "solution."

The MRC endorsed the addition of a new section 1.4 to Manual 10 and made revisions to manuals 13 and 14D. The changes defined what happens when PJM issues a notification or start-up alert, and set notification and start-up time requirements for peak and off-peak periods.

Last week, officials told OC and MIC members they want to add a section to Manual 11 that would fully implement the rule changes. The new language, which is still being drafted, would:

- Require units to use the same notification and start-up times for both price-based and cost-based offers;
- Define "safe harbor" provisions for units whose notification and start-up times don't affect PJM scheduling decisions;
- Establish an economic indicator in eMKT that signals to generation owners whether the Monitor anticipates their units will be economic or uneconomic;
- Add an approval and change process for notification and start-up time parameters; and
- Establish rules on start-up cost offers for short lead-time units.

Lost in the Ether

Dave Anders, director of PJM stakeholder affairs, said his research found that manual language was drafted for elements involving PJM but not for those concerning the Monitor's role in enforcing the rules.

"They were never drafted and taken to the MRC and for some reason we closed this issue out in the issue-tracking and it got lost in the ether," Anders told the MIC on Wednesday.

But some members who took part in the 2012 MRC vote said their recollections of the issue differ from the portrayal by PJM and the Monitor.

One stakeholder said the Manual 11 changes the Monitor is now seeking would allow it to approve both cost- and price-based schedules. "I'm telling you that would not

Continued on page 16

PJM Responds to Critics on Capacity Release Filings

PJM says critics of its requests to safeguard capacity for the 2015/16 delivery year ignored the context of its filings with the Federal Energy Regulatory Commission.

Fearing that it might run short due to retirements of coal-fired generation, PJM asked for a one-time waiver on rules that would otherwise require it to release 2,000 MW of capacity in the Feb. 23 third Incremental Auction for 2015/16 (ER15-738). Dominion Resources called the filing "premature and speculative." (See *PJM Capacity Release Filings Draw Critics*.)

PJM countered that "Dominion ignores the resource adequacy *planning* context of PJM's request. By its very nature, planning is forward-looking and prudently anticipates a variety of possible conditions and scenarios. Dominion's argument is comparable to contending that the possibility that loads could substantially exceed forecast levels this summer is 'premature and speculative;' or that the possibility that forced generation outages could greatly exceed average levels next winter is 'premature and speculative.'"

PJM also dismissed arguments that the 2,000-MW figure was too broad, saying that it is barely more than 1% of the resources committed in the Base Residual Auction for this delivery year.

PJM also proposed revising its Tariff to allow it to enter into capacity agreements made outside the Reliability Pricing Model auctions (ER15-739).

In its protest, Old Dominion Electric Cooperative argued that PJM had "not demonstrated a threat to reliability sufficient to warrant its proposal for undefined and unlimited authority to enter into agreements" outside of the RPM. It also said that "no [reliability-must-run] procurement should be pursued or entered into without further being informed by the third Incremental Auction results."

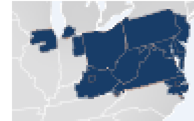
PJM said that it appears that the amount of uncommitted resources is not enough to meet the potential capacity deficiency. "Therefore, PJM likely cannot rely on the third Incremental Auction as a source of supplemental capacity to *increase* overall capacity commitment levels and help mitigate the identified resource adequacy concerns," the RTO said.

PJM also disputed the allegation made by Direct Energy that the RTO is seeking a "blank check."

"PJM showed in the Dec. 24 filing that if generator outage and peak load conditions like those seen in January 2014 were to recur in the 2015/2016 winter, the PJM region could be short by up to 2,600 MW," the RTO said. "PJM therefore is seeking supplemental capacity agreements of *no more than* 2,600 MW."

PJM is asking FERC to approve its proposals before the third Incremental Auction on Feb. 23.

PJM NEWS



Members Dispute PJM, IMM on Unfinished Changes to Notification, Start-Up Times

Continued from page 15

have been approved" by members, said the stakeholder, who declined to be quoted by name.

Members "did not come to any resolution on what an appropriate notifying time would be except for … long lead-time units," he told the OC on Tuesday. "Never did we agree that the start-up and notification was subject to approval by the Market Monitor."

Several stakeholders said members should consider a new problem statement on the unapproved manual changes and other concerns that generators have regarding parameter-limited schedules.

A second stakeholder who also declined to be quoted by name asked whether there was a "statute of limitations" on problem statements, saying it "seems like a stretch" for officials to make the changes years later. "Everybody who was a part of the process has different recollections of what was agreed on," he added.

Joel Romero Luna, representing the Monitor, told the OC that PJM and the Monitor have been unable to find any documentation "that things were purposely kept out."

"Some things were implemented. Some things were not implemented," said Luna, who was not part of the 2012 discussions.

"There was a reason that it didn't" get implemented, the second stakeholder responded. "Because the [members] didn't come to agreement on everything on the Market Monitor's wish list."

Meeting Minutes

Minutes of the March 14, 2012, MIC meeting record members' unanimous approval of two related items. An agenda item titled "parameter limited schedules" reports that Marker Monitor Joe Bowring "reviewed the consensus proposal that resulted from the special sessions of the MIC, which focused on developing potential solutions to the issues identified with the application of parameter-limited schedules to *only cost-based offers*." (Emphasis added.)

Under a second agenda item titled "unit notification and startup time," the minutes report that PJM's Simon Tam "reviewed the consensus proposal resulting from the special sessions of the MIC, which focused on addressing market-related issues stemming from the operational requirements for units with extended notification and start-up time. The proposal will be implemented once the required technical changes are in place, but no sooner than fall 2012."

Minutes of the June 28, 2012, MRC meeting, at which members endorsed the earlier manual changes, are no longer publicly available on the PJM website.

What's the Rush?

Mike Borgatti of Gabel Associates noted that the Federal Energy Regulatory Commission's response to PJM's Capacity Performance proposal could result in additional rule changes. "What's the rush with putting this into effect now?" he asked. "That's a very contentious piece of the filing."

Path Forward

MIC Chair Adrien Ford said the manual changes would be brought to a first read at the committee's March meeting, at which time members will consider whether to move forward or to seek a new problem statement. PJM intends to refer a provision allowing generators to include the cost of shortening notification and start-up times in the cost-based start-up cost to the Cost Development Subcommittee.

Ford said that in the interim, PJM, the Monitor and stakeholders will "seek agreement on what was the history" of the issue.

NCEMC: Dominion Request is 'Retroactive Ratemaking'

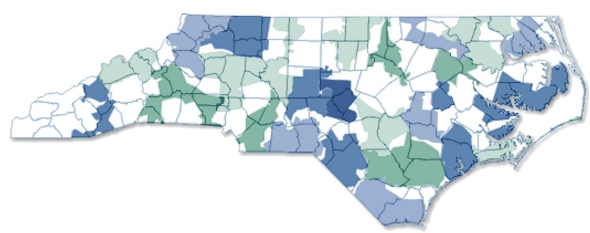
The North Carolina Electric Membership Corp. is protesting a request by Dominion Resources to push back the effective date for a rate revision by more than a year.

Last April, the Federal Energy Regulatory Commission approved Dominion's request for revised transmission depreciation rates with an effective date of April 1, 2013 (ER14-1549).

On Jan. 15, Dominion asked FERC to change the effective date to Jan. 1, 2012, saying its request would only change the effective date of the revised rates, not the rates themselves.

NCEMC, however, says that Dominion's request would run afoul of the commission's prohibition against retroactive ratemaking.

"This filing effectively seeks to retroactively charge increased rates to Dominion's transmission customers for transmission service purchased during the locked-in period Jan. 1, 2012, through March 31, 2013," NCEMC said in its protest (ER15-856).



Electric cooperatives operate in 93 of North Carolina's 100 counties. (Source: NCEMC)

Dominion is requesting the extension because of a Virginia State Corporation Commission ruling that set the 2012 date for the updated depreciation rates for bookkeeping purposes. The SCC filed comments in support of Dominion, saying that its precedent holds that a "change in costs must be recorded in the appropriate accounting period coincident with the change; this is true for depreciation expense as well as other costs."

"Thus, while Dominion correctly notes that its filing is necessitated by the directive of the [SCC] … this implementation date is also consistent with sound utility accounting practice," the SCC said.

NCEMC argues that, based on prior similar cases, FERC "is not bound by state determinations regarding retail rate proposals. And Dominion cited no precedent to indicate that other commission policy considerations require consistency between state and federal depreciation rates, plant balances or depreciation reserves."

PJM News

Market Implementation Committee Briefs

PJM Acknowledges Capacity Transfer Rights Proposal is 'Somewhat Preferential'

VALLEY FORGE, Pa. — A senior PJM official acknowledged last week that a proposal to allow load-serving entities such as the Illinois Municipal Energy Agency to use external resources to meet their capacity requirements could be construed as "somewhat preferential."

Stu Bresler, vice president of market operations, outlined a proposal to allocate capacity transfer rights (CTRs) to resources external to the PJM region that historically have been used to serve the needs of the PJM load.

"We think this is a relatively small population and we can do this … very narrowly," Bresler told the Market Implementation Committee.

PJM estimates 1,037 MW of historic external resources would qualify under its proposal: 122 MW in the DOM zone, 533 in COMED, 261 in AEP and 121 in DAY.

GT Power Group's Dave Pratzon, who represents generation owners, took issue with the plan. "What you're proposing seems like a real sweetheart deal, and any rules I'd want to see would be very strict in terms of identification and not be able to be expanded in the future," he said.

"I'll be the first to admit the treatment here could be seen as somewhat preferential," Bresler responded. The question for stakeholders, he said, is "does the historic nature of the commitments justify that solution?"

Independent Market Monitor Joe Bowring asked whether IMEA could sell its rights to a third party under the proposal.

Bresler said "that level of detail is not decided yet." He said PJM will expand the detail of the proposal and return it to the committee in March.

(See *Illinois Regulators, IMM Line Up Against IMEA Capacity Waiver Request*.)

PJM-MISO Scheduling Product Approved

Members on Wednesday approved an optional scheduling product intended to reduce uneconomic power flows between PJM and MISO, similar to the Coordinated Transaction Scheduling product launched Nov. 4 with NYISO. (See *NYISO Scheduling Product Wins FERC OK*.)

The product would allow traders to submit bids that would clear only when the price difference between the two regions exceeds a threshold set by the bidder.

The vote came with a condition that the two RTOs detail their pricing methodologies in their joint operating agreement. (See *PJM, MISO Reach Agreement on New Interchange Product*.)

The product would operate on a joint clearing mechanism in which each party would evaluate the prices individually, and the common set would be the transactions that flow.

PJM stakeholders will have to vote on the accuracy of the product's prices before the offering goes live.

The RTOs are expected to agree upon a common method of interface pricing by November 2016.

PJM, MISO near Agreement on M2M Language

PJM and MISO expect to file a revised Joint Operating Agreement this spring on three market-to-market rules.

PJM's Asanga Perera told the MIC that the two RTOs have agreed in concept on all three issues and drafted language for one, a change to the threshold for naming flowgates. Perera said RTO officials were still "wordsmithing" provisions regarding conflicting constraint control and hold-harmless settlements for planned outages submitted after the day ahead market deadline.

The threshold for flowgates will be amended for transmission lines at 138 kV or less. The change means that 138-kV and lower elements will not be named as flowgates unless flows from the neighboring RTO amount to 35% or more of the line's rating, up from the current 25%. The 20% threshold will remain for lines more than 138 kV.

Perera said language on the other two rule changes should be complete by the March MIC meeting. A filing with the Federal Energy Regulatory Commission is targeted for early in the second quarter.

Test Shows Highest Promised Load Reductions

Summer limited demand response produced 135% of promised load reductions in tests this year, the highest ever.

The test showed 9,668 MW of limited DR responding, 2,510 more than the commitment. However, some providers failed the test, resulting in penalties of $2.7 million, at an average penalty rate of $140/MW-day.

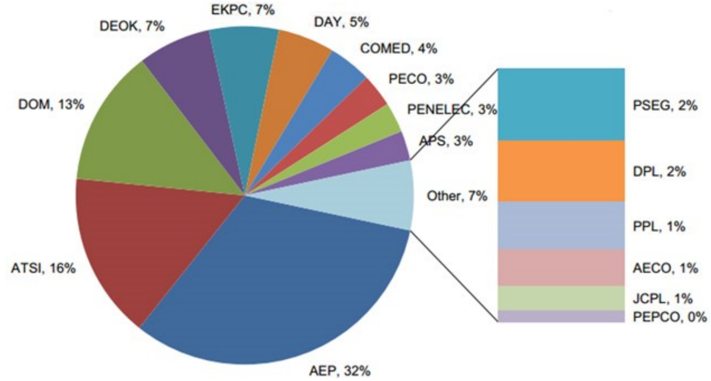
PJM has not actually called on DR during delivery year 2014/15.

Faulty Models Hamper Net Energy Metering Study

PJM's attempt to track the growth of distributed solar generation is being hampered by modeling issues. In a briefing on its net energy metering quarterly review, PJM told members that the locations identified as sources of "negative energy" — net energy injections at load buses — are not where most solar PV is located.

"Usually the largest 'injections' are because of modeling issues on the distribution system," PJM's Ken Schuyler said. "We haven't really seen a trend of negative injections because of net energy metering."

-- Suzanne Herel & Rich Heidorn Jr.

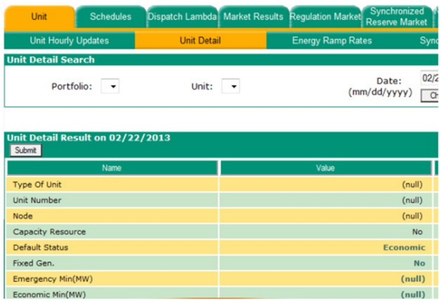


Negative energy load buses by zone. (Source: PJM)

PJM News

Operating Committee Briefs

eMKT to Add Intraday Cost Schedules Wednesday



VALLEY FORGE, Pa. — Software problems have led PJM to delay implementation of an eMKT tool allowing gas-fired generators to make intraday changes in price schedules.

The optional system, called the Intraday Cost Schedule Update, had been set to go live Feb. 9. It is now expected to be available on Wednesday, Chantal Hendrzak, PJM general manager of Applied Solutions, told the Operating Committee last week. The changes, intended to more accurately reflect the cost of generation, will allow users to file a different cost schedule for each hour every day, not just during cold weather alerts.

Implementation was delayed in part because of coding that required members to upload fuel information with every single entry. That is being changed so members will be able to download all fuel types and upload them in XML. Once the update is functional, the previous manual process will no longer be supported.

Additionally, fuel data enhancements in eMKT were scheduled to be introduced to the eMKT "sandbox" for testing Feb. 13. Beginning April 1, all members will be required to supply energy fuel type and subtype, as well as startup fuel type and subtype, in order for their offers to be accepted — regardless of whether the generator plans to make intraday price changes.

January Operations Show Improvement

A report on last month's operations showed that the forced outage rate was much lower than in January 2014, with outages peaking at 10% during an RTO-wide cold weather alert Jan. 7-8.

Gas problems were responsible for about half of the 18,861 MW that failed to operate during the morning peak on Jan. 8 and the 13,481 that faltered on the evening of Jan. 7.

The preliminary reported load for Jan. 8 was 136,669 MW, the fifth-highest winter peak on record. Jan. 7 saw the seventh-highest peak at 136,119 MW.

No units changed their costs intraday during the cold weather alert.

Wind generation during the cold weather event also was good, at 2,500 to 5,300 MW during peak hours.

Cold Weather Preparation Test Fails 10 Generators

PJM tested 168 generators in December and January, and all but 10 were successful.

In all, 443 units were eligible to participate in the exercise. Of those that did, 26 experienced initial failures. In a retest, 16 succeeded.

The largest cause of failure, at 31%, was liquid fuel handling problems, followed by cranking diesel failure and circuit breaker issues, each accounting for 15% of the total. Control system problems made up 12%. The remaining 27% of failures were chalked up to miscellaneous reasons, such as generator instrumentation issues and excessive vibration.

The participating units experienced a significantly lower percentage of forced outages in the first week of January compared with units that either declined or were not eligible to take part.

The cost of the winter testing came to $4.88 million.

Sought: Ways to Incent Training, Certification Compliance

Some PJM generation operators are guilty of "chronic non-compliance" with training and certification requirements, PJM told members.

While non-compliant companies are supposed to submit mitigation plans, many have not, and there are no financial penalties for failing to do so.

PJM officials asked the Operating Committee to consider whether the RTO should impose financial penalties or deny offenders access to PJM markets and tools.

Transmission operators generally are in compliance, officials said.

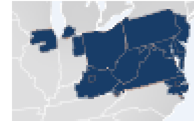
System Restoration Coordinators Task Force Becomes Subcommittee

Members approved a charter change upgrading system restoration coordinators from a task force to a subcommittee.

The change was made because task forces are supposed to sunset. The subcommittee will report to the Operating Committee.

-- Suzanne Herel

PJM NEWS



Planning Committee Briefs

PJM Developing Tx Standards for Non-incumbent Developers

VALLEY FORGE, Pa. — PJM is developing design, engineering and construction standards for non-incumbent transmission developers who can win "designated entity" status under the Federal Energy Regulatory Commission's Order 1000.

PJM's Suzanne Glatz told Thursday's Planning Committee meeting that the RTO is seeking a balance between "innovative designs" and reliability. Greenfield projects would not have to conform to an incumbent transmission owner's design standards but would have to meet reliability standards.

A non-incumbent could reference standards filed in FERC Form 715 for other jurisdictions, adhere to standards approved by PJM's Transmission and Substation Subcommittee or win the subcommittee's approval for the developer's own standards.

Voltage Floor Among Changes to Improve Order 1000 Process

PJM is considering changes to improve the Order 1000 process and expects to present a problem statement to the Planning Committee after its fourth and final "lessons learned" conference call on the issue Feb. 27.

One possible change would exempt projects below 200 kV from the competitive process.

Improvements already underway include the use of webcasting, development of a new tool to permit the secure exchange of large files and process improvements to gain access to annual transmission planning and evaluation reports.

Light-Load Study: Generation Up, Load Down

PJM is considering changes to the assumptions it uses for modeling light-load conditions in transmission planning.

"We want to determine whether the assumptions we made four years ago should be revisited," PJM's Mark Sims said. "We have a lot more wind now. We have a lot more data."

An analysis of light-load historical data confirmed that the windiest hours continue to be 1 to 5 a.m. November through April — a time when load often is less than the assumed 50% of the summer peak.

Meanwhile, wind generation often exceeds the 80% capacity factor assumed in the modeling.

Planners will discuss potential changes with stakeholders in March.

DR Assumption Model to Change

PJM is proposing to change the way it models demand response in planning studies to reflect the amount of DR that is replaced by other resources before the delivery year.

Currently, the model relies on the amount of DR that clears the Base Residual Auction and any Incremental Auctions for a delivery year. That amount is held constant for all future years.

One alternative PJM is considering would reduce DR by the lesser of either the locational deliverability area's existing uncleared generation for the delivery year, or a rolling three-year average of the amount of DR replaced by other resources RTO-wide.

The three-year rolling average ending June 1, 2014, showed about 34% of DR was replaced RTO-wide.

-- Suzanne Herel

Monitor Gives Lukewarm Review to PJM 'Sham Scheduling' Fix

By Rich Heidorn Jr.

VALLEY FORGE, Pa. — PJM's plan to change the definition of the IMO interface with Ontario's Independent Electricity System Operator received a lukewarm review from Market Monitor Joe Bowring, who said it would not correct what he has called "sham scheduling."

"We think it's an improvement. We don't think it resolves it," Bowring told the Market Implementation Committee last week, saying he would determine its effectiveness by the prices that result.

In 2013, the MIC approved Bowring's request to investigate whether traders could be manipulating PJM's interface pricing points by breaking schedules into multiple "back-to-back" transactions. (See *MIC to Probe 'Sham Scheduling'*.)

In the 2012 State of the Market report, the monitor described the practice as "sham scheduling," in which he said traders were hiding the actual source of generation. PJM prices transactions with external balancing authorities based on the source and sink identified on the North American Electric Reliability Corp. eTag. Breaking the transaction into portions with separate eTags can lead to loop flows and incorrect pricing.

The IMO interface pricing point was created because transactions that originate or sink in the IESO balancing authority create flows that are split between the MISO and NYISO interface pricing points. The Monitor wants PJM to eliminate the IMO pricing point and assign transactions that originate or sink in IESO to the MISO interface pricing point.

Bowring said that he may recommend banning some transmission paths to prevent the abuse, as NYISO did in 2008 (ER08-1281).

New Definition

PJM's new definition recognizes that flows from transactions scheduled between IESO and PJM are affected by the performance of the Michigan-Ontario phase angle regulators (PARs).

Because actual flows are not known in advance, the price will reflect historical flows over the PARs, using an average price split weighted with 40% NYISO and 60% MISO.

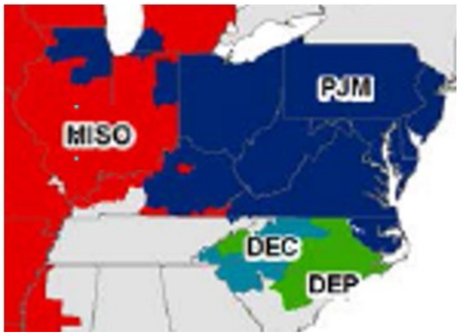
The new definition, which will be effective with the new planning year beginning June 1, will be used in both the annual financial transmission rights auctions and auction revenue rights allocations.

In addition, a new aggregate, named "ONTARIO," will be created that maintains the current IMO definition in order to eliminate impacts to long-term FTR positions. It will be defined as 100% of the BRUCEA 17-kV pnode. It will also be effective June 1.

PJM NEWS

Transmission Expansion Advisory Committee Briefs

Study: Capacity Imports not Affecting NC Pricing, Reliability



VALLEY FORGE, Pa. — PJM capacity imports for delivery year 2016/17 are not significantly affecting prices or reliability on Duke Energy's transmission in North Carolina, planners told the TEAC last week.

PJM said that was the finding of a joint study by PJM, MISO and the North Carolina Transmission Planning Collaborative (NCTPC).

The study was requested by the North Carolina Utilities Commission following the 2013 Base Residual Auction, which PJM said had cleared an unprecedented amount of imports, most of them located in MISO.

The commission was concerned that the MISO imports could exacerbate loop flows within its state and might cause Duke Energy Carolinas (DEC) and Duke Energy Progress (DEP) to alter their joint generation dispatch, raising prices for consumers.

The analysis examined 7,663 MW of external generation that cleared, 2,774 MW of which had not procured firm transmission service. Of the imports without firm transmission service, about 463 MW will flow through the DEC and DEP transmission systems, most of it on 500-kV and 230-kV lines, the study found.

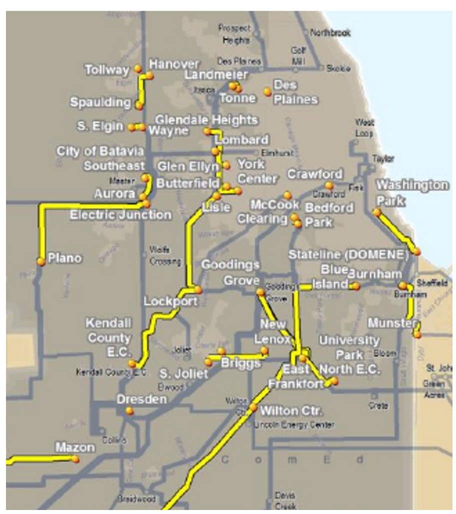
"The study results indicate that the BRA resources cannot be considered a significant adverse impact on North Carolina reliability," PJM said. "Also, the results of the economic analysis show the impacts of the modeled BRA resources to be insignificant."

Duke complained that PJM confidentiality provisions prevent the RTO from sharing the individual resource locations with MISO, Duke or other members of the NCTPC. "Not having access to this information and the modeling data makes it virtually impossible for Duke Energy's transmission planners to fully understand any identified issues or to determine appropriate corrective actions," Duke said. "Duke Energy believes that its transmission planners have a right and necessity, due to their responsibilities under FERC and [North American Electric Reliability Corp.] rules, to obtain detailed information on all activities that may affect the reliability of Duke Energy's bulk electric system."

Duke also complained that using low distribution factors as a threshold for considering transmission impacts is inappropriate for the analyses conducted. The company said they limit "the likelihood that calling transmission loading reliefs (TLRs) on BRA-related generators will be a viable means of relieving congestion in real time." It said the analysis should use higher thresholds and be run after each annual auction.

Nevertheless, Duke said it "believes that PJM performed the analysis accurately and conscientiously."

III. Nuke Retirements Could Prompt Major Tx Projects in PJM, MISO



Thermal violations resulting from potential Illinois nuclear plant closings. (Source: PJM)

The retirements of Exelon's Byron, Quad Cities and Clinton nuclear plants in Illinois could require more than $372 million in transmission upgrades in MISO's Northern Indiana Public Service Co. (NIPSCO) and Ameren Illinois (AMIL) zones and millions more within PJM, PJM officials told the TEAC.

Planners said their study, done at the request of the Illinois Commerce Commission, indicated the retirement of the plants would cause numerous thermal and voltage violations requiring almost $305 million in transmission improvements in AMIL and an estimated $68 million in NIPSCO. The largest potential project was the reconductoring of 34 miles of a 138-kV line in AMIL, estimated at $51.3 million.

The study also identified numerous violations within PJM, although the costs of corrective measures were not included in planners' presentation.

"It's not surprising that taking out 5,000 MW of generation in Illinois that we would see some reliability issues," said Paul McGlynn, general manager of system planning.

Exelon said last year that the three nuclear plants are unprofitable under current market rules and that it might shut them down without changes. (See *Illinois Considering Carbon Tax, Cap-and-Trade to Save Exelon Nukes*.)

PJM: No Timeline for Artificial Island Decision

PJM planners again pushed back a decision on the stability fix for New Jersey's Artificial Island and said they could offer no timeframe for a recommendation to the RTO's board.

PJM has hired a consultant to review studies of four finalists' proposals. (See *Further Study Delays PJM's Artificial Island Decision*.)

During a presentation at Thursday's meeting of the Transmission Expansion Advisory Committee, Steve Herling, vice president of planning, said there was no telling how long it would take for PJM to decide on a recommendation after receiving the consultant's report.

"Obviously, we want this done as quickly as possible, but each step has taken longer than expected," he said. "At this point we're probably out of the business of prognostication."

Herling said planners may end up taking

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Transmission Expansion Advisory Committee Briefs

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pieces from the proposals and putting them together. (See *Artificial Island Finalists Face Off in Tense Meeting*.)

"It's entirely possible we could take part of one proposer's project, the line that they proposed, and elements of another proposer's project and put them together and say this is the solution, and then go back and see whose proposal that looks most like. We think we are in our powers to assemble that solution from the parts and pieces given to us."

Herling also said PJM will be responding to a complaint that Public Service Electric and Gas filed with the Federal Energy Regulatory Commission (EL15-40) over the solicitation process. (See *PSE&G: PJM Broke the Rules in Artificial Island Solicitation*.) It has until Wednesday to do so.

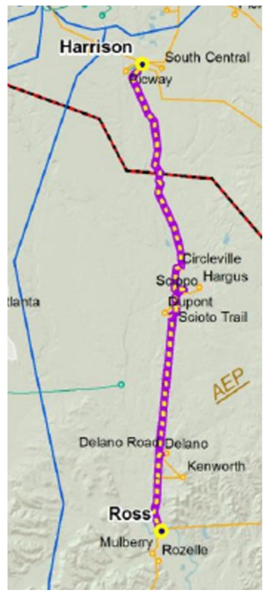
"The complaint is not impacting PJM's timeline on a decision," Herling said.

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.

The project involving the island, home to the Salem-Hope Creek nuclear complex, was PJM's first solicitation under FERC's Order 1000, which opens up transmission line projects to non-incumbent companies.

AEP Upgrade Project Triples in Cost to $130M

The cost of American Electric Power's project to upgrade 36 miles of 138-kV facilities between the Harrison and Ross substations in Ohio (Project B2256) has jumped to $130 million from $40.5 million, PJM told TEAC members.



Harrison-Ross rebuild. (Source: PJM)

Engineers discovered that outages of the line would jeopardize a large load pocket and that a de-energized rebuild would take much longer than the required in-service date of June 1, 2017.

Instead, AEP will rebuild the line while it is energized, increasing the cost, PJM said.

Dominion, FirstEnergy Recommended for Pratts Solution

PJM planners are recommending the RTO's board select a proposal from Dominion Resources and FirstEnergy to solve reliability problems near Pratts, Va.

Dominion and FirstEnergy estimated the cost of the project at $149 million, but PJM says the cost could range between $129 million and $164 million.

PJM solicited solutions in its second Order 1000 proposal window last year. Four developers suggested 16 proposals, including two transmission owner upgrades and 14 greenfield projects. Only six of the proposals were judged to have solved the violations.

LS Power's Northeast Transmission Development agreed to cap the costs on its proposals but PJM said its own estimates suggested the upgrades would exceed the developer's caps, making them more expensive than the Dominion-FirstEnergy greenfield proposal, which also had less risk because the companies own the substations involved and most of the rights-of-way required.

Planners said the winning project (2014_2-13A) should be submitted to the Virginia State Corporation Commission for approval by the end of the first quarter. It includes a new 230-kV line, uprates of existing 115-kV lines and substation upgrades.

-- Suzanne Herel & Rich Heidorn Jr.

Gates Brothers Fire Back at PJM

Hedge fund twins Kevin and Richard Gates, already embroiled in a battle with the Federal Energy Regulatory Commission's Office of Enforcement, have now taken on PJM.

The Gates brothers and a trader for their Powhatan Energy Fund are awaiting a ruling from FERC on an order to show cause why they shouldn't be fined for allegedly making round-trip up-to-congestion trades to collect line-loss rebates.

A PJM analysis done at the request of the Office of Enforcement showed that Powhatan's trading strategy cost more than 20 market participants at least $100,000 each. PJM issued a statement Feb. 3 criticizing Powhatan's trading activities, saying the fund failed "to appreciate the unique legal and regulatory framework governing organized wholesale electricity markets." (See *PJM: Gates' Trades Cost Exelon, AEP, Dominion $1M Each*.)

"Yeah, perhaps we do not understand this 'uniqueness,'" Powhatan said in a press release last week. "We were under the impression that constitutional protections applied to all regulated markets in this country, including theirs.

"Our activities were perfectly legal," the statement continued. "And the thing is — PJM knows it."

PJM spokesman Ray Dotter's response to the latest Gates salvo was short and to the point.

"While we stand by our position, the simple fact is that Powhatan's problems will be resolved by FERC and the courts and not by any opinions held by PJM or Powhatan," he said.

COMPANY BRIEFS

M&A Report Shows Upswing in Number, Value of Deals

PricewaterhouseCoopers' fourth-quarter 2014 power and utilities mergers and acquisitions report showed an increase in both the number and value of deals greater than $50 million. The firm recorded 22 deals in the last quarter, compared to 12 in the third and 14 in the fourth quarter of 2013. The total value of the deals increased 57% to $17.4 billion in Q4 from $11.1 billion in Q3.

More: *PWC*

PSE&G Ranks Highest in Eastern Gas Service Customer Satisfaction

Public Service Electric & Gas was named No. 1 in gas-service business customer satisfaction in a poll by J.D. Power, with a score of 690 on a scale of 1,000. The ranking comes on the heels of PSE&G's first-place ranking in electric-service business customer satisfaction among 12 utility companies earlier this year. It is the first time the company has achieved first-place rankings in both categories.

More: *Electric Energy Online*

PPL Shutting Down J.E. Corette Coal Plant near Billings, Mont.

A PPL subsidiary said that it will permanently shut down its mothballed 153-MW coal-fired J.E. Corette plant near Billings, Mont. PPL Montana closed the plant in 2012 because of low market prices and the high cost of environmental upgrades. At the time, it said that the plant might be returned to service if power prices warranted. It is not part of the PPL-Riverstone Holdings deal that will form a new merchant generation company, Talen Energy.

More: *PowerMag*

Entergy: Vermont Yankee Decom Not Guaranteed After 60 Years

Entergy is not guaranteeing that it will finance any decommissioning costs at the now-closed Vermont Yankee plant if it takes longer than 60 years.

Entergy Vice President Michael Twomey told Vermont legislators that if decommissioning isn't completed by then, "there would probably be quite a lot of litigation" concerning additional funding. Vermont Yankee's decommissioning fund currently holds about $600 million. He said he believes the fund will grow enough to cover the cost of dismantling the reactor and at least part of the cost of managing the plant's spent fuel.

Because there is still no federal spent-fuel storage facility, all of the spent fuel since the plant started up in 1972 remains on site in pools. Twomey said the company has arranged two lines of credit to pay for transferring the fuel to dry casks and expects to be reimbursed by the U.S. Department of Energy.

More: *PennEnergy*

Atlantic Coast Pipeline Signs $400 Million Pipe Contract

While awaiting approval from the Federal Energy Regulatory Commission, and battling with opponents in Virginia, Atlantic Coast Pipeline is moving forward with a planned 550-mile natural gas pipeline and just signed a $400 million contract with a steel pipe company. The line is intended to bring shale field gas through Virginia into North Carolina. Last week, the consortium behind the pipeline said it contracted with Dura-Bond Industries to produce steel pipe ranging from 30 to 42 inches in diameter. It is the largest single order in Dura-Bond's history, and the company's Steelton, Pa., plant will add a second shift to help complete the order.

More: *Virginia Business*

Duke Energy Buys Majority Stake in Calif. Solar Company

Duke Energy added to its solar portfolio last week by buying a majority stake in REC Solar, a commercial solar company based in San Luis Obispo, Calif. Industry figures put REC Solar as the eighth largest solar installation company in the U.S. It has installed more than 400 commercial systems totaling more than 140 MW. Although the terms of the transaction were not disclosed, Duke has said it is ready to invest up to $225 million more in REC projects.

More: *GreenTech Media*

Duke Solar Part II: Company to Build 111 MW in SC

Duke Energy said it plans to spend up to $68.7 million on solar projects in South Carolina over the next five years, adding 111 MW of solar capacity to the state's grid. The plan calls for 53 MW of commercial solar capacity and 58 MW of rooftop solar. The residential rooftop solar will be spurred by customer incentives of up to $5,000 each, the company said.

More: *Charlotte Business Journal*

Dominion Awaiting FERC OK for Gas Tx Projects in Md.

The Federal Energy Regulatory Commission is in the final phase of reviewing two natural gas transmission projects proposed by Dominion Transmission to fuel two new power plants in Maryland. The 725-MW CPV St. Charles Energy Center in Waldorf and the 735-MW Keys Energy Center in Brandywine will be fed from Dominion's existing pipeline, but the taps on the pipeline need to be approved by FERC. The $775 million St. Charles plant is under construction and due to come online by June 2017. Construction of the Keys Energy Center, a $750 million plant, will begin this year and come online in early 2018.

More: *Southern Maryland News*

TVA to Buy 760-MW Plant in Miss. for $340 Million

The Tennessee Valley Authority board last week approved a plan to buy a 760-MW natural gas-fired combined-cycle plant in Ackerman, Miss., for $340 million. The board also approved plans to enter into a power purchase agreement with an 80-MW solar plant to be built near TVA's Colbert Fossil Plant in North Alabama. Charles "Chip" Pardee, chief operating officer, said the decisions were driven by a desire to add a cleaner mix to its coal-heavy portfolio to help meet pending Environmental Protection Agency emissions mandates. TVA has built or purchased five combined-cycle plants totaling 3,900 MW.

More: *Chattanooga Times Free Press*

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COMPANY BRIEFS

Continued from page 22

FirstEnergy Investing Nearly $35M in Tx Projects to Support Shale Gas

FirstEnergy said it is upgrading existing transmission lines and building new substations in a $35 million project to support the Marcellus Shale gas industry in western Pennsylvania. Although the projects are aimed at serving the growing power needs of the shale gas industry, FirstEnergy customers will also reap the benefits: new shale gas projects account for about 370 MW of projected load growth in the area, the company said.

More: StateImpact

Google Signs 20-Year Wind Contract with NextEra Energy

Google has signed a 20-year power purchase agreement with NextEra Energy to buy wind-generated electricity for its Googleplex headquarters in Mountainview, Calif. The company committed to buying half of the output from NextEra's windmills on the Altamont Pass in eastern Alameda and Contra Cost counties. The output is estimated at 43 MW. Terms of the deal were not disclosed.

More: Silicon Valley Business Journal

Exelon's Korsnick to Take NEI COO Slot


Korsnick

Maria Korsnick, Exelon Generation's senior vice president for Northeast operations and chief nuclear officer of the company's joint venture with Electricite de France, is being loaned to the Nuclear Energy Institute for an 18-month assignment as the lobbying group's chief operating officer. Korsnick has 28 years of experience in the nuclear industry.

More: NEI

Ameren Asking for More Time to Meet EPA Emissions Goals

Ameren is asking for an additional five years to meet emissions-reduction goals set by the Environmental Protection Agency, saying the current schedule that calls for incremental goals to be reached by 2020 is unreasonable. It said that expecting states to meet the goals "with such stringent targets at short notice" would lead to "staggering costs" of approximately $4 billion. It said it could meet the targets of compliance by 2035, five years past the suggested 2030 deadline.

"The EPA should allow states that put in plans that show they would be hitting the 2030 targets within a reasonable time frame around that 2030 date — in our case 2035 — the EPA should be flexible and allow that," said Joe Power, Ameren's vice president of federal legislative and regulatory affairs.

More: St. Louis Public Radio

-- Compiled by Ted Caddell

FEDERAL BRIEFS

Wind Company Accuses PacifiCorp of 'Trickery,' Racism

A Utah company trying to a develop a small wind generation project filed a complaint with the Federal Energy Regulatory Commission last week accusing PacifiCorp of violating commission rules and making racially and sexually disparaging remarks toward its employees.

Sage Grouse Energy Project told FERC that PacifiCorp employed "trickery" in its management of the interconnection queue in order to secure an agreement with rival Utah wind company Blue Mountain Power Partners. Calling PacifiCorp and Blue Mountain "conspirators," Sage Grouse claims that parcels of land identified in Blue Mountain's interconnection request actually belonged to Sage Grouse, rendering Blue Mountain's request invalid.

Additionally, Sage Grouse accused PacifiCorp employees of repeatedly calling its company principal a "voodoo bitch," and suggesting that she "go back to where she came from," citing this as a microcosm of its treatment of minority-owned interconnection customers. A PacifiCorp spokeswoman said the allegations were "unsubstantiated and baseless."

More: EL15-44

DOE Kills Funding for FutureGen 2.0 Project

A decision by the Department of Energy to terminate funding for the FutureGen 2.0 clean coal/carbon-capture project in Illinois likely means the project's demise. FutureGen Alliance CEO Ken Humphreys said the department decided to ax its $1 billion funding because the 2009 federal stimulus deal set a deadline of September of this year for project completion. Despite being in the works for more than a decade, the plant is nowhere near being operational and still faces substantial opposition, including legal challenges from the Sierra Club.

More: Scientific American

NRC IG: Improvement Needed in Spent Fuel Pool Oversight

The Nuclear Regulatory Commission's Inspector General's Office released its report on the agency's spent fuel pool oversight program and while it found no safety issues, it pointed to some areas that could be improved. The report, issued last week, found that spent fuel pool inspections vary from site to site.

The IG recommended that the NRC pool-inspection program develop a "generic" regulatory framework of inspections and regulations. It also recommended that inspections of older pools be stepped up to check for degradation. The agency inspects a total of 93 spent-fuel pools at operating or retired reactors in the U.S.

More: Audit of NRC's Oversight of Spent Fuel Pools

FERC Approved 19 Hydro Projects in 2014

The Federal Energy Regulatory Commission last year approved 19 hydro licenses totaling 1,936 MW, according to its Energy Infrastructure Update. In 2013 there were 12 such approvals. This year, the commission will consider 18 applications for license and exemptions that were filed in 2014. The FERC update said hydro makes up 8.42% of the installed capacity in the U.S.

More: HydroWorld (subscription required)

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FEDERAL BRIEFS

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NRC Staff OKs Watts Bar 2 Operating License Approval

The Tennessee Valley Authority's Watts Bar 2 nuclear station, currently under construction, received an important approval from a Nuclear Regulatory Commission committee in its bid for an operating license. The commission's Advisory Committee on Reactor Safeguards said "there is reasonable assurance that the [unit] can operate as a second unit of the dual-unit Watts Bar Nuclear Plant without undue risk to the health and safety of the public."

The approval will be considered by the NRC in its final decision on granting an operating license. The plant is due to go on line between September and June 2016.

More: PennEnergy

Brattle Group Finds Few Reliability Concerns with Clean Power Plan

A group of clean energy companies said in a report last week that there is no clear evidence reliability would suffer if the Environmental Protection Agency's Clean Power Plan was adopted by all states. The Advanced Energy Economy Institute, made up of Competitive Power Ventures, EnerNOC, General Electric and other companies invested in clean-power technology, commissioned the report. The Brattle Group concluded in the report that, "Following a review of the reliability concerns raised and the options for mitigating them, we find that compliance with the CPP is unlikely to materially affect reliability."

More: Advanced Energy Economy Institute

New Tx Line Energized at Palo Verde Hub

A 109-mile transmission line in Arizona running from Maricopa County to Pinal County went into service last week, strengthening a crucial energy junction serving Arizona, Nevada and California. The Electrical District No. 5-to-Palo Verde Hub line, which came in on time and about $3 million under budget, eases constraints in that region. It was a joint project between the Department of Energy's Western Area Power Administration and the Southwest Public Power Resources Group. The $79 million project was funded through the American Recovery and Reinvestment Act.

"This transmission line is a clear example of how, through partnerships, we can modernize our energy infrastructure to jumpstart our energy-based economy ahead of its time. We are extremely optimistic that the new line will add reliability to the region's grid and provide another pathway to interconnect more renewable generation resources," said Western Administrator and CEO Mark Gabriel.

More: Department of Energy

DTE's Fermi 3 Takes Next Step Toward Getting License

Nuclear Regulatory Commission staff have recommended that DTE's proposed Fermi 3 nuclear plant be granted a combined construction-operating license. Although DTE has not yet made a final decision to build the reactor, the licensing process is moving forward. If the license is granted by the NRC, it will give DTE more options in deciding on a final plan. "We have not announced or committed to building a unit at this time," said Guy Cerullo, DTE spokesman. "We're keeping our options open."

More: Monroe News

Vermont Yankee Plant Gets 'Green' Finding After Closing

The now-closed Vermont Yankee nuclear plant received a "green" finding from the Nuclear Regulatory Commission because of a problem found the day after the plant shut down for good. Entergy workers realized that water levels in the reactor core were lower than they thought because of faulty calculations, according to the NRC. The 43-year-old reactor was shut down Dec. 29 and is being decommissioned. The NRC said the problem was of "very low safety significance."

More: Rutland Herald

-- Compiled by Ted Caddell

STATE BRIEFS

ARIZONA

Nuclear a Renewable Resource? Arizona Senate Panel Says 'Yes'

A state Senate committee has passed a bill — by one vote — that would declare nuclear power a renewable energy source. SB1134 would define nuclear energy as renewable if it comes from "sources fueled by uranium fuel rods that include 80% or more of recycled nuclear fuel and natural thorium reactor resources under development." State code currently holds nuclear and fossil fuels as non-renewable.

More: Phoenix New Times

ARKANSAS

Senators' Bill Would Give States Say over Feds on Tx Lines

The state's two Republican U.S. senators, prompted by a proposed Clean Line transmission project in the state, have introduced federal legislation to "restore the right of states" to rule on transmission projects before the federal government steps in.

Sens. John Boozman and Tom Cotton introduced the Assuring Private Property Rights Over Vast Access to Lands (APPROVAL) Act, which calls for the U.S. Department of Energy to get approval from states' governors and public service commissions before exercising eminent domain. Such decisions, Boozman said, "should not be in the hands of Washington bureaucrats. If a project is not good for Arkansas, our governor or public service commission should have the power to say 'no.'"

Cotton

More: Times Record

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STATE BRIEFS

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DELAWARE

Environmental Groups Ask Judge For Venue to Stop Oil Shipments

Rebuffed by two state boards, two environmental groups went to a Superior Court judge to appeal a state order allowing increased crude oil shipments out of the Delaware City Refinery. At issue is a 2013 order by the Department of Natural Resources and Environmental Control, which granted an amended air pollution permit for the refinery. The permit allowed crude to be loaded on vessels at the refinery's dock. Now, long lines of rail cars carrying crude are rolling into the refinery and the crude is being shipped out.

The environmental groups argue that such use is a violation of the state's Coastal Zone Act. But both the Environmental Appeals Board and Coastal Zone Act Industrial Control Board have said challenges to the permit are outside of their jurisdiction. The groups asked Superior Court Judge Andrea L. Rocanelli to identify a venue for their challenges to the permit. She is expected to rule within 90 days.

More: *The News Journal*

ILLINOIS

Madigan, Emanuel Call For Investigations of Peoples Gas

Madigan

Chicago Mayor Rahm Emanuel and state Attorney General Lisa Madigan are calling for an audit of Peoples Gas to be made public in light of the company's burgeoning cost overruns on pipeline replacement projects. Costs for the project went from a projected $2.2 billion to $4.6 billion. Madigan and Emanuel have called for a subpoena of the auditing company, Liberty Consulting Group, to have it testify about what it discovered about the projects and the company's management of them. Peoples is replacing about 1,700 miles of gas mains and is supposed to complete that by 2020. An administrative law judge earlier this month denied Madigan's request to make the audit public.

More: *Crain's Chicago Business*

INDIANA

IURC Denies IPL's $12.3M Recovery Request for Charging Stations

Indianapolis Power & Light's request for $12.3 million in cost recovery that would have paid, in part, for a program to build charging stations for electric cars was denied by the Utility Regulatory Commission. IPL said it would decide whether to appeal the decision. It had asked for the money to install charging stations and kiosks for the BlueIndy project, part of Indianapolis' electric-car sharing program.

More: *Indiana Public Media*

MICHIGAN

Gov.'s Office Says We Energies 'Double-Dipping' in UP Deal

Gov. Rick Snyder's senior policy advisor accused We Energies of "double-dipping" for collecting ratepayer subsidies to keep an Upper Peninsula power plant on while at the same time getting paid by a returning industrial customer whose departure helped spur the subsidies in the first place.

We Energies is collecting about $8 million a month in system support resource (SSR) payments to keep the Presque Isle plant in Marquette open. Those payments and higher rates were necessary, the utility successfully argued, to keep the plant open. But Cliffs Natural Resources, an industrial customer that left two years ago, returned earlier this month. Cliffs Natural Resources makes up 85% of the plant's load. "We absolutely believe they are double-dipping," said Valerie Brader, Snyder's senior policy advisor said.

WE spokesman Brian Manthey disputed that, saying the industrial customer is not guaranteed to stay with the company. Cliffs Natural Resources "could leave at any time, leaving other customers at risk," Manthey said. "Without a long-term agreement over an extended period of time with the mines, they could potentially leave. We feel the SSR should stay in place at this point because they are not committed." The company has until Feb. 25 to respond to the Public Service Commission.

More: *Midwest Energy News*

State to Meet 10% Renewable Energy Goal by End of Year

The Public Service Commission says the state will have 10% of its energy come from renewable sources by the end of the year. Its report said that the level was at 8.1% in 2014, up from 7.8% in 2013. "By the end of the year, Michigan will have reached its renewable energy portfolio standard — 10% by 2015," PSC Chairman John D. Quackenbush said. "The RPS can be credited with over 1,450 MW of new renewable energy projects becoming commercially operational since [the law] took effect." The PSC said 59% of its renewable energy comes from wind, followed by 16% hydro and 14% biomass.

More: *MLive*

MINNESOTA

Regulators Approve 187 MW Of Xcel Solar Projects

The Public Utilities Commission last week approved three solar projects proposed by Xcel Energy that will increase the state's solar capacity by a factor of 10. The largest of the three projects is a 100-MW array in North Branch. Community Energy Solar, a Radnor, Pa.-based company selected by Xcel to build it, said it will be "far and away the biggest" solar project in the Midwest. Two other projects near the towns of Tracy and Marshall will add another 87 MW of capacity. Those two alone will be enough to allow Xcel to meet its state mandate for 1.5% of its electricity from solar by 2020.

More: *Minneapolis Star-Tribune*

NEBRASKA

TransCanada Puts Keystone Land Buys on Hold Pending Suit

TransCanada, the company attempting to build the Keystone XL Pipeline, is holding off on buying any more state land until a state court decision on a suit filed by landowners who don't want to sell. The company has already purchased about 90% of the land necessary for the proposed pipeline to run through the state.

A 2012 state law gave the governor the power to determine the pipeline route

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STATE BRIEFS

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through the state. Landowners are suing, saying that power properly rests with the state Public Service Commission. Four of the seven state Supreme Court justices already ruled in the landowners' favor, but five justices are needed to strike down a state law.

More: *Financial Post*

NEW JERSEY

Senate Passes Bill that Would Force BPU Approval of Wind Plan

The state Senate passed a bill that would force the Board of Public Utilities to approve the proposed Fishermen's Energy offshore wind project. The BPU has twice rejected the $188 million project, saying it would be burdensome for ratepayers. S2711 now goes to Gov. Chris Christie for his signature. The project already has $46.7 million in federal funding, but one of the requirements to get that money is BPU approval.

More: *Recharge News*

NORTH CAROLINA

Piedmont Natural Gas Files For Rate Reduction

For the third time in three months, Piedmont Natural Gas has filed with regulators here and in South Carolina to cut its natural gas rates. The rates are a pass through on a dollar-for-dollar basis, and dropping wholesale natural gas prices are driving the reductions. If approved, residential customers would see an average savings of about $10 per month.

More: *Greer Today*

OHIO

PUCO Near Ruling on AEP's Power Purchase Deal

The Public Utilities Commission is near a decision on whether to grant American Electric Power a power purchase agreement that will guarantee income on its share of a coal-fired generating plant. The company said the agreement is necessary to ensure continued operation of the plant in the face of increased competition. AEP, which has a larger, similar request before the commission, has hinted that if PUCO denies either request, it may decide to sell more than 2,700 MW of generation in the state. Consumer advocates and environmental groups are against it, because it transfers the risk from AEP shareholders to ratepayers.

More: *Columbus Business First*

OKLAHOMA

Earthquake Victim Filing for Class Action Status Against Energy Cos.

A woman whose home was damaged in a 2011 earthquake she claims was caused by hydraulic fracturing has sued two energy companies. Jennifer Lin Cooper filed in Lincoln County, saying the quake caused $100,000 damage to her home and she cannot afford repairs. She named Spess Oil and New Dominion as defendants. The suit seeks class action status for residents of nine counties whose homes suffered damage from three large earthquakes in the Prague area. Oklahoma had more earthquakes than California last year. It recorded 585 quakes of 3.0 magnitude or greater in 2014, more than the past 35 years combined.

More: *Tulsa World*

PENNSYLVANIA

New Gov.'s Shale Gas Tax Gets Rise Out of Industry

Gov. Tom Wolf almost immediately announced new taxes on gas extraction in the state when he got into office, but a coalition of energy companies thinks Wolf's moves will put a chill in the state's energy industry. As part of Wolf's Pennsylvania Education Reinvestment Act, shale gas operations will be taxed at 5% of income and an additional 4.7 cents per 1,000 feet of gas extracted. "Make no mistake, adding a 5% tax to any business sector, including the energy industry, is going to reduce capital spending and hit the supply chain, especially Pennsylvania-based small and mid-sized business," said David Spigelmyer, president of the Marcellus Shale Coalition.

More: *UPI*

SOUTH DAKOTA

PSC-Approved Tx Project Facing Land Rights Challenges

A 144-mile, $54 million transmission line approved by the state Public Service Commission is in jeopardy because Black Hills Power is having difficulty convincing property owners to let them build. Black Hills Power wants to build the line between substations in Wyoming and South Dakota, but 65 property owners are balking. The company had estimated the line would be complete by the end of the year but said it may have to resort to eminent domain action to move forward.

More: *Casper Star Tribune*

WEST VIRGINIA

House Passes Bill to Give Lawmakers Last Say in EPA Rules

The state House overwhelmingly passed a bill that would give the legislature the last word when it comes to developing a compliance plan to meet the U.S. Environmental Protection Agency's Clean Power Plan. The plan gives each state a goal to reduce carbon dioxide emissions and calls for each state to come up with a compliance plan. The bill, which has not yet passed the house, would call for state agencies to deliver compliance plans to the legislature, rather than to the EPA.

"In my opinion, the EPA has overstepped its boundaries," said the bill's sponsor, Del. Josh Nelson.

More: *The State Journal*

WISCONSIN

Judge Overrules PSC's Solar Panel Size Restriction

A Dane County judge ruled last week that the state Public Service Commission erred when it set a limit on the size of solar panels that could qualify for net metering. The PSC, backed by arguments from utilities that were mandated to pay solar panel owners who qualified, said there needed to be a size restriction on the program that allows businesses, schools and churches with large solar arrays to earn credits for power they sell back to the utilities. The judge said that the PSC didn't gather enough information before issuing its ruling.

More: *Wisconsin Public Radio*

-- Compiled by Ted Caddell

DOE IG Warns FERC Information Security 'Severely Lacking'

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cause relevant emails were missing from Wellinghoff's account.

Friedman called on the agency's staff to develop a system to review sensitive information with the aim of providing appropriate access to the industry while protecting the data from would-be adversaries. He also recommended commission workers have security clearances.

The report came as a result of accusations that Wellinghoff inappropriately disclosed information to industry and federal officials on an analysis he commissioned on critical substations. Details of the analysis also were the subject of news articles. (See *FERC Criticism of Ex-Chair Mounts*.)

FERC staffers told the IG the non-public information Wellinghoff released was highly sensitive though it wasn't classified. "The commission failed to have the material reviewed even though some commission staff referred to the analysis and substation failure simulations as being of 'national security' interest," the IG said.

The report did not cite Wellinghoff by name, only referring to him as "the former FERC chairman."

The report said that from June through October 2013, commission staff, including the former chairman, briefed or shared details of the electric grid analysis with industry and federal officials and congressional staff.

Factual Disputes, Missing Email

Before the briefings, the IG said, an unidentified "senior commission official" requested that the chairman consider using generic simulations to avoid revealing sensitive information, but Wellinghoff denied the request. The creators of the analysis told investigators that in response to concerns about sharing the information, Wellinghoff permitted them to treat the documents as Critical Energy Infrastructure Information (CEII), requiring those who viewed the information to sign nondisclosure agreements. The report cites emails dated April 23 and 25, 2013, in which a senior commission official wrote that he discussed the use of nondisclosure agreements with the former chairman, who agreed with the idea.

But Wellinghoff told investigators that although there was a general assumption that the analysis should be considered CEII, it was never formally designated as such. The former chairman also said he was unaware of commission staff requiring the completion of nondisclosure agreements prior to his sharing the information.

The IG said that in an effort to resolve the "troubling" inconsistencies in the testimony of commission staff and the former chairman, investigators obtained emails and other relevant documentation from commission records.

"In our view, the information contemporaneously generated by the commission staff supported the testimonial evidence they provided regarding the circumstances surrounding the creation and subsequent handling of the electric grid analysis and substation failure simulations," the IG said.

"When we attempted to compare the statements made to us by the former chairman to supporting information, we found no email traffic in the former chairman's account for a relevant period in October and November of 2013."

Although commission staff said they had provided all of Wellinghoff's emails in commission records, investigators did obtain some emails generated or received by the former chairman that were not found in his account from the email accounts of other commission staff members.

"Nonetheless, because of the inability to obtain information from the former chairman's email account for that period, we were unable to completely reconcile the differing positions," the IG said.

Wellinghoff did not respond to a request for comment on the report.

'Deeply Troubling'

The report was requested last February by then-Senate Energy and Natural Resources Committee Chairman Mary Landrieu (D.-La.) and the current chair, Alaska Republican Lisa Murkowski.

Murkowski issued a statement Feb. 4 terming the findings "deeply troubling."

"Not only did the report find inconsistencies between the testimony of former FERC Chairman Wellinghoff and commission officials, but it found that during Wellinghoff's tenure there was a 'culture of reluctance to classify certain nonpublic documents,'" Murkowski said.

"Additionally, it is concerning that Mr. Wellinghoff's email during the relevant period apparently went missing. Oversight of FERC is an important duty of this committee. As chairman, I will fully review the inspector general's recommendations, including potential legislative proposals to improve FERC's handling of sensitive information."

FERC Chairman Cheryl LaFleur, who succeeded Wellinghoff, said she concurred with the report's findings and had begun to implement its recommendations.

In response to the IG's preliminary findings in April 2014, the commission modified its mandatory annual ethics and classified security training to emphasize the proper handling of nonpublic and classified material. (See *IG Faults FERC on Leaked Sabotage Report*.)

Commission staff also has begun meeting with Department of Energy officials to address confusion identified by investigators over their respective responsibilities for classifying commission-created information.

The IG said the commission's comments and planned corrective actions were "generally responsive" to its findings.

"Not only did the report find inconsistencies between the testimony of former FERC Chairman Wellinghoff and commission officials, but it found that during Wellinghoff's tenure there was a 'culture of reluctance to classify certain nonpublic documents.'"

Sen. Lisa Murkowski (R-Alaska)

ISO-NE Chooses Land-Based Tx Project for Boston Area

Continued from page 1

be developed to be able to manage the system in Greater Boston during peak load conditions" before the project is complete, it said.

The land-based AC plan is a 25-mile series of overhead lines in existing rights-of-way, connecting a substation in New Hampshire with one in Massachusetts, along with two eight-mile underground sections.

SeaLink Falls Short

The competing project outside Boston, dubbed SeaLink, was proposed by NHT, a subsidiary of NextEra Energy, owner of the Seabrook nuclear station in southern New Hampshire. It would have run 50 miles of undersea HVDC cable from the Seabrook substation to a substation in Massachusetts, with another 18-mile section buried on land.

The two project sponsors engaged in a vigorous debate about their opponents' estimates and the costs to be incurred by ratepayers. The AC partners pointed to the initial high cost of SeaLink, its expensive technologies and the risks associated with undersea cables.

NHT contended SeaLink would be cheaper, saying the AC project would affect service, forcing utilities to buy more expensive replacement power during its construction. NHT upped the ante by offering to swallow any overruns above a cost cap of $679 million.

Both plans include the reconductoring of several 115-kV lines and other substation and transmission equipment upgrades, estimated to cost $221 million.

Selection Criteria	AC Plan	HVDC Plan
Cost	✓	✗
Constructability	✓	✓
Construction outage requirements/cost impacts	✓	✗
Expected in-service dates	✓	✓
Interface impacts	✓	✗
Losses	✓	✗
Extreme contingency analysis results	✗	✓
Expansion capabilities	✓	✗
Lifetime maintenance requirements	✓	✗
Incremental costs for potential retirements	✓	✗
Siting issues	✓	✓
Storm hardening	✓	✓

✓ Is applied to the Alternative which better achieves the objective

✗ Is applied to the Alternative which does not achieve the objective as well as the other competing Alternative

ISO-NE comparison of proposed Greater Boston Reliability Projects. Note: AC plan put forward by Eversource Energy and National Grid; HVDC plan by NextEra Energy. (Source: ISO-NE)

Concerns Identified in 2009

ISO-NE said the Boston area's reliability concerns were identified in 2009. Several upgrades, including line reconductorings, were advanced to ensure reliability could be maintained after the retirement of all four Salem Harbor generating units — two in 2011 and two in 2014, according to the RTO.

In 2013, ISO-NE updated its original needs assessment to reflect several major system changes, including resource additions and retirements, changes in underground cable ratings in Boston, and updated load forecasts.

ISO-NE planning engineers worked with NHT to help develop its plan from a conceptual proposal into a workable solution. The RTO also worked with Eversource and National Grid to update components of the AC project based on the findings of the 2013 needs assessment. Updated versions of both plans were presented to the ISO-NE Planning Advisory Committee in June 2014.

The project will be discussed at Wednesday's PAC meeting.

Eversource Ups Tx Spending

In an earnings call with analysts last Thursday, Eversource identified the Boston area as one of its key areas for investment. It announced that it will spend $3.9 billion on transmission upgrades and expansions from 2015 to 2018, a $900 million increase over the $3 billion proposed a year ago.

It identified several big-ticket items in the area, including its share of the AC plan, totaling at least $707 million. There are also "hundreds" of reliability projects throughout New England coming in at $968 million.

Exelon-Pepco Deal Moves Forward in NJ, Del.

Continued from page 1

Atlantic City Electric customers $62 million in rate credits.

The BPU's approval means that the acquisition now needs only the regulatory approval of Delaware, Maryland and D.C. The Delaware PSC must vote on the staff settlement agreement, which was announced Friday.

Among other incentives in the agreement is a stipulation that guarantees New Jersey customers benefits equal to those eventually approved by Delaware, Maryland or D.C.

Pepco Holdings is headquartered in D.C., and includes Atlantic City Electric, Pepco, which serves D.C., and Delmarva Power & Light, with customers in Delaware and Maryland.

The $62 million in rate credits comes out to about $114 for each of Atlantic City Electric's 544,000 customers.

Wednesday's agreement contains other incentives, including:

- An energy-efficiency program that would provide $15 million in energy savings over five years;
- Reliability commitments exceeding BPU requirements;
- Promises to hire 60 union workers, protect wages and benefits and keep a headquarters at Mays Landing, N.J.; and
- Charitable contributions equal to Atlantic City Electric's current $709,000 annual giving for 10 years.

Continued on page 29

Exelon-Pepco Deal Moves Forward in NJ, Del.

Continued from page 28

"This merger represents a great compromise that will provide many benefits to New Jersey," BPU President Richard S. Mroz said in a written statement. "Additionally, the settlement protects the jobs of nearly a thousand New Jersey residents and keeps the company's local operational headquarters in Mays Landing."

Exelon CEO Christopher Crane and Pepco CEO Joseph Rigby also issued statements praising the agreement.

One party that didn't sign the agreement was New Jersey's consumer advocate, Stefanie Brand, director of the Division of Rate Counsel. Brand said the agreement, which was approved by the BPU staff last month, fails to protect consumers.

"There is nothing in the agreement that keeps Exelon from coming in and asking for a rate increase later that wipes out" the customer credits, she said in an interview Wednesday. "We certainly made our concerns known" during hearings and negotiations, she said.

Brand said Exelon more than doubled its initial rate credits offer during the negotiations that led to the settlement. "We do think [the BPU] got some good concessions, and I'm hopeful that Exelon won't do things to wipe them out," she said. "We were looking to lock it down a little bit more."

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More Approvals Needed

While Exelon has the approvals needed from the Federal Energy Regulatory Commission, Virginia and now New Jersey, it still needs those of Maryland, D.C. and Delaware.

"We are working cooperatively and productively with the public service commissions and other stakeholders in Delaware, the District of Columbia and Maryland to demonstrate how the merger will benefit the PHI utilities' customers and communities," Exelon Spokesman Paul Elsberg said Wednesday night. "We continue to expect the merger to close in second or third quarter of this year."

Maryland

Maryland finished evidentiary hearings yesterday. Those hearings were supposed to conclude last week, but it took so long to go through every witness that two more hearings were added. Because of that, the decision of the Public Service Commission has been pushed back a week, from April 1 to April 8.

The state's consumer advocate, the Office of People's Counsel, has urged the PSC to turn down the deal as it stands, calling the benefits Exelon is offering "either non-existent or woefully deficient."

Exelon has offered $40 million in customer credits in Maryland. The PSC staff has recommended $167 million in credits.

District of Columbia

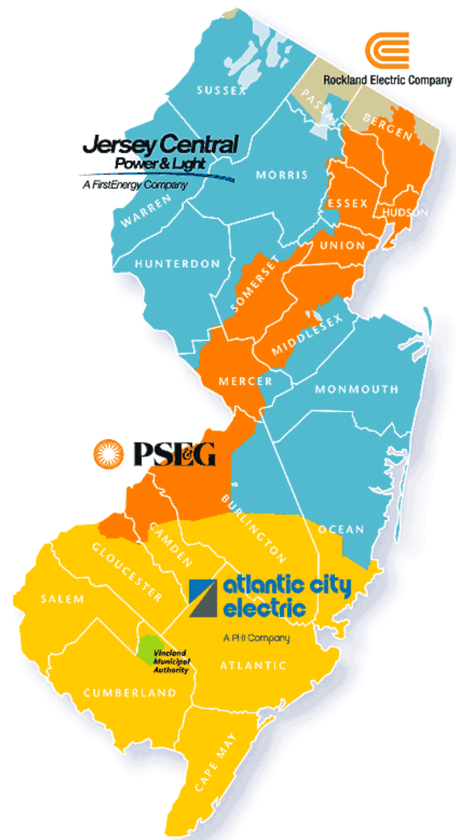
Exelon and Pepco are also facing headwinds in D.C., where People's Counsel Sandra Mattavous-Frye has called on the Public Service Commission to reject the merger.

Exelon has promised $14 million in incentives for D.C. Evidentiary hearings were to begin this week, but Mattavous-Frye asked the commission for more time to review additional information filed by Exelon and Pepco. A revised schedule for the hearings was released Wednesday night, which has evidentiary hearings pushed back to the end of March.

Delaware

Delaware has three days of hearings scheduled to start Feb. 18, but they may not be needed.

Late Friday afternoon, Exelon issued a statement that said it reached a settlement



with the PSC staff, the Delaware Public Advocate, the Department of Natural Resources and Environmental Control and several trade groups.

The agreement calls for:

- $49 million in rate credits for Delmarva electric and gas customers over 10 years;
- $2 million in energy-efficiency program funding;
- Reliability improvement commitments;
- Hiring of at least 83 union employees;
- Maintaining a headquarters in Newark and company facilities in Wilmington and Millsboro; and
- Charitable contributions exceeding Delmarva's 2013 level of $699,000 for 10 years after the merger.

Earlier in the week, Public Advocate David Bonar said Exelon initially offered $17 million in customer credits for Delmarva Power's Delaware customers. "Obviously, we felt that was substantially low," he said.

So did a consultant hired by the Public Service Commission, who said $62.9 million, or about $100 per customer, would be a more appropriate figure.

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MRC/MC Preview

7. ENERGY MARKET UP-LIFT SENIOR TASK FORCE (EMUSTF) Charter (11:00-11:10)

Members will be asked to approve the charter for the Energy Market Uplift Senior Task Force (EMUSTF). The MRC approved the creation of the task force in May to take a broad review of its method of providing Operating Reserve payments.

PJM said the changes were needed to reduce growing uplift costs resulting from Operating Reserves, "make whole" payments that ensure generators dispatched out of merit for system reliability don't operate at a loss.

See *PJM Proposes Operating Reserve Changes to Cut Uplift*

pjm

Energy Market Uplift Senior Task Force Charter
Draft

Mission

The Markets and Reliability Committee (MRC) approved the creation of the Energy Market Uplift Senior Task Force (EMUSTF) on May 30, 2013 to evaluate causes for energy market up-lift charges, develop ways to minimize them while maintaining prices that are consistent with operational reliability needs, and explore new methodologies for the allocation of make-whole payments.

PJM Proposes Operating Reserve Changes to Cut Uplift
April 30, 2013

PJM called Thursday for a broad review of its method of providing Operating Reserve payments, saying changes were needed to reduce growing uplift costs.

Operating Reserves are "make whole" payments that ensure generators dispatched out of merit for system reliability don't operate at a loss. Because they are collected through uplift charges and not reflected in day-ahead or real-time locational marginal prices, they cannot be hedged.

In 2012, operating reserve payments totaled a near record $649 million, 2.2% of total billing. Day-ahead operating reserve charges increased by about 90% in 2012, spiking in September after PJM increased the number of "must run" units dispatched in the day-ahead market.

- **Federal and state regulatory news briefs**

OHIO

Industry Likes Efficiency Rule, Wants Spending Cap

The Ohio Manufacturers Association favors the state's energy efficiency standards but wants a cap on how much utilities can charge for efficiency riders. The group said is still studying provisions of a bill that has been introduced to make changes in the program.

Meanwhile, wind energy supporters argued against a provision in the bill that would eliminate requirements that utilities buy a certain amount of in-state renewable energy.

More: *Columbus Business First; The Columbus Dispatch*

- **Voting summaries**

Trading Limits

Reason for Change: PJM proposed the cap because high bid volumes can make it difficult for the RTO's day-ahead markets software to reach solutions.

Impact: PJM can limit market participants to no more than 3,000 UTC transactions each in the day-ahead market when necessary for market operations. (A similar cap also applies to increment offers and decrement bids.)

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PJM should be able to absorb the more than 7,000 MW of imports that cleared in May's capacity auction for 2016-17, officials said. -more-

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Members agreed to consider new rules to allow batteries, flywheels and other advanced storage technologies to bid in the capacity market. -more-

PJM Likely to Limit Capacity Imports
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PJM will seek to set a limit on capacity imports before next year's Base Reliability Auction under a problem statement approved Thursday by the Planning Committee. -more-

Installed Reserve Margin May Increase for 2014
September 17, 2013
PJM's recommended Installed Reserve Margin (IRM) will increase slightly because of the increasing alignment of the RTO's peak demand with demand outside of the region, according to a preliminary analysis presented to the Planning Committee Thursday. -more-

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