RTO Insider

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ISSN 2377-8016 : Volume 2015/Issue 7 February 24, 2015

EPA on Carbon Rule: We're Listening

Officials Offer Promises, Few Details to Skeptics at NARUC, FERC

By Rich Heidorn Jr.

Wisconsin Public Service Commissioner Ellen Nowak (left) looks on skeptically as EPA's Janet McCabe speaks at a panel discussion on the Clean Power Plan. Also listening are California PUC Commissioner Carla Peterman (middle) and Maryland PSC Commissioner Kelly Speakes-Backman (right), both supporters of the EPA plan, and FERC Commissioner Philip Moeller (back to camera). © RTO Insider

WASHINGTON — Senior Environmental Protection Agency officials promised energy regulators and utility executives last week that the final carbon emission rule the agency issues this summer will protect reliability and not crush consumers.

But the message, delivered at the winter meetings of the National Association of Utility Regulatory Commissioners and a Federal Energy Regulatory Commission technical conference, left many in attendance skeptical. While officials said they will make changes to address concerns raised over the proposed rule issued last June, they offered few details.

EPA Administrator Gina McCarthy told a NARUC general session Tuesday that the agency has been taking critiques of the Clean Power Plan to heart. Referencing prior EPA rulemakings, McCarthy said "each and every time, we learned from the comment period."

McCarthy acknowledged the frustration state and industry officials have expressed over the lack of certainty in the proposed rule, which seeks to reduce power plant emissions 30% by 2030. "We'll try to be a lot more specific in the final rule so states

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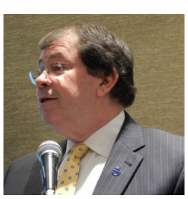
Retiring PJM CEO Boston Lauded for Efficiency Improvements, Management Style

By Suzanne Herel



Boston

When Terry Boston took the helm of PJM seven years ago, the RTO was in turmoil, its reputation as the model for running competitive deregulated electricity markets in the balance.

Top management was battling allegations by PJM's electricity price watchdog that the system was allowing generators to inflate rates. Amid the clash, Chief Operating Officer Audrey Zibelman and Chief Executive Officer Phil Harris abruptly resigned within months of each other, leaving the RTO rudderless.

In stepped the former executive vice president for the Tennessee Valley Authority, who early on in the deregulation of the market had focused on the importance of reliable transmission when the conversation — and profits — had drifted toward the generators.

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MISO Board to Review Entergy Lake Charles Project Following Stakeholder Pushback

By Chris O'Malley

Entergy's request for a $187 million transmission upgrade near Lake Charles, La., will receive a "full review" by MISO's board following stakeholder dissent over its classification as an out-of-cycle project.

At the Planning Advisory Committee meeting last week, the transmission developer and independent power producer sectors voted against MISO staff's conclusion that the request by Entergy qualified as an out-of-cycle reliability project. The vote was 2.2 in favor of the recommendation, two against and 4.8 abstaining.

Five smaller out-of-cycle proposals by Entergy received votes of 3.2 in favor and 3.8 abstaining, with the transmission developers voting against.

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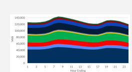

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COMPANY EARNINGS

Duke Reaches $102M Settlement over Ash Spill; Q4 Earnings Down

By Suzanne Herel and Ted Caddell

Duke Energy said Friday that it had reached a $102.2 million settlement with the federal government to end the investigation into the Dan River ash spill and the company's ash basin operations at other North Carolina plants.

News of the proposed settlement, which must still be approved by a U.S. District Court judge, came hours after federal prosecutors filed misdemeanor criminal charges against the company for illegal ash pond discharges throughout the state.

The investigation began following the February 2014 spill of up to 39 million tons of ash into the Dan River.

'We are Accountable'

Good

"We are accountable for what happened at Dan River and have learned from this event," said CEO Lynn Good in a prepared statement Friday. Good mentioned the pending settlement during an earnings call on Wednesday.

Under the terms of the settlement, Duke will pay $68.2 million in fines and restitution and $34 million for community service and mitigation. The settlement calls for the $102.2 million to be borne by company shareholders, not ratepayers. The company's fourth-quarter results included a charge of 14 cents per share to cover the settlement.

The full terms of the settlement will be released if it is approved by the court.

Good said the investigation was a catalyst to strengthen Duke's ash management practices and to speed up its ash basin closures.

She also said the company expects to spend $1.3 billion to excavate and close five sites: Asheville, Dan River, Riverbend and Sutton in North Carolina, and W.S. Lee in South Carolina.

The Duke incident led North Carolina legislators to impose stricter rules on how coal ash storage sites can be operated.

In December, the Environmental Protection Agency issued the first-ever federal regulations governing the storage and use of coal ash, a byproduct of burning coal. There are an estimated 1,000 coal ash storage sites in the U.S., primarily under the control of electric generating companies. The industry produces about 140 million tons of coal ash per year.

Earnings Down

Coal ash pond that spilled into the Dan River in North Carolina. (Source: Duke Energy)

On Wednesday, the Charlotte, N.C.-based company reported fourth-quarter earnings of $97 million ($0.14/ share), compared with $688 million ($0.97/share) a year earlier. Year-end earnings were $1.88 billion ($2.66/share), down from $2.67 billion ($3.76/share) in 2013.

Duke said the results for its regulated utility business were affected by higher operation and maintenance costs due to a change in the accounting treatment of nuclear plant outages in the Carolinas. Meanwhile, its nonregulated businesses were impacted by Duke Energy International's lower earnings, which resulted from a widespread drought in Brazil.

International Operations to Remain

Duke said Wednesday that it has decided to retain the international affiliate, which it had said last year it was considering selling.

The company said it plans to repatriate $2.7 billion in DEI earnings to the U.S. through 2022 through a taxable dividend.

DEI owns, operates or has substantial interests in approximately 4,900 MW of electric generation outside the U.S., primarily in Latin America.

PSEG Q4 Profits More than Double over 2013

By Ted Caddell

Public Service Enterprise Group reported fourth-quarter net income of $476 million ($0.94/share), more than double the $200 million ($0.39/share) for the same quarter in 2013. The company posted net income of $1.518 billion ($2.99/share) for 2014, compared to $1.243 billion ($2.45/share) a year earlier.

CEO Ralph Izzo attributed the increased earnings to its investments in its regulated business, Public Service Electric & Gas. "As a result of an extended capital program, earnings from our regulated company grew to represent 52% of our consolidated operating earnings, as PSE&G's investment in transmission has grown to represent 39% of its $11.4 billon rate base."

Izzo highlighted several aspects of the investment in the regulated business, much of it in response to the pounding New Jersey, and PSE&G in particular, took during Hurricane Sandy. "We received approval to invest $1.2 billion in Energy Strong, a program that will improve the resiliency of our electric and gas distribution systems," he said during a conference call.

The company is updating and replacing about 250 miles of its natural gas lines, as well as making upgrades to its electric transmission network. "We completed construction of two, 230-kV transmission lines during the year, as well as the New Jersey portion of the 500-kV Susquehanna-Roseland line," he said.

Izzo acknowledged that PSEG Power's bid to build a new 475-MW combined-cycle plant in Connecticut didn't clear ISO-NE's recent capacity auction, but he said "we haven't abandoned this work and we'll invest when the markets support its development." (See *Exelon, LS Power Join CPV in Adding New England Capacity*.)

COMPANY EARNINGS

FirstEnergy Exec Alexander Retiring as Company Posts Q4 Loss

By Michael Brooks

FirstEnergy

Former FirstEnergy CEO Anthony Alexander announced last week that he will retire and leave the company's board of directors at the end of April, after only four months as the company's executive chairman. The announcement came just before the company released its year-end earnings report, showing that it sustained a net loss in the fourth quarter of 2014.

Alexander, 63, stepped down as the company's CEO on Jan. 1 and took the executive chairman title to serve as an advisor to new CEO Charles Jones, 59.

Alexander

Jones began the company's fourth-quarter earnings call last week by thanking Alexander.

"Tony guided our company through a dramatic expansion and navigated through one of the most challenging periods in the history of the utility industry," Jones said. "We certainly wish him well as he begins this new chapter in his life and enjoys more time with his family."

Alexander spent 43 years with FirstEnergy, beginning his career in the tax department of the company's predecessor, Ohio Edison.

Another Lackluster Year

FirstEnergy reported a net loss of $306 million ($0.73/share) in the fourth quarter of 2014, compared to net income of $142 million ($0.34/share) for the same period in 2013. Profits for the year dropped 23.7% to $299 million ($0.71/share) from $392 million ($0.94/share), the company reported.

CFO Jim Pearson cited reduced margins on competitive operations and milder weather that drove down residential sales as two of the primary drivers for the drop.

The company's operating earnings for 2014 were $2.56/share, on the low end of the range it projected a year ago. (See *Reboot for FirstEnergy*.)

Rate Cases, Rebound for Competitive Operations?

Despite the drop in earnings, Jones was optimistic about the company's future.

The company is still in the midst of shifting focus from its unregulated FirstEnergy Solutions subsidiary to upgrading in regulated transmission and distribution, according to Jones.

> **"I've been asked numerous times about the possibility of divesting [FirstEnergy Solutions]. Frankly, at this point in time it doesn't make sense ... to sell these assets at the lowest value they will likely ever have."**
>
> **FirstEnergy CEO Charles Jones**

Jones

"We continue to believe the initiatives that were put in place during 2014 laid the path for our future growth and success," he said, citing pending rate filings. "The recent major storm events that have impacted FirstEnergy's service territory have highlighted a need for hardening of our distribution systems."

He also defended the company's approach to its competitive business.

"I've been asked numerous times about the possibility of divesting this business," Jones said of FES. "Frankly, at this point in time it doesn't make sense, while we are at or hopefully near the bottom of the market, to sell these assets at the lowest value they will likely ever have. In addition, capacity market reforms and pending changes to the treatment of demand response are likely to provide near-term value for this business."

UBS Reiterates Sell Rating

Some analysts are not so hopeful. Following the company's earnings call, UBS Securities reiterated its sell rating on the company and lowered its projections for 2015 operating earnings to $2.53/share from $2.68.

UBS also said it was skeptical of Jones' assertions that it would not unload its competitive business, saying Alexander's departure means less board support for merchant operations.

"While there's nothing to confirm our thoughts here yet, we suspect management could yet look to spin/sell the business later this year," UBS said. "... We expect the writing will largely be on the wall well before November following the outcome of the Ohio [Electric Security Plan] and PJM capacity auction."

Company Earnings

US Business Softens Iberdrola Slump

By William Opalka

Earnings from U.S. operations were a bright spot for Spanish utility conglomerate Iberdrola SA, as the company coped with the effects of slashed government subsidies for renewable energy in its home country.

Iberdrola said 2014 profits fell to 2.33 billion euros ($2.66 billion), from 2.57 billion euros in the same period last year. The Spanish government's cuts in renewable-power subsidies and distribution reduced earnings by 617 million euros, the company said.

U.S. earnings, however, grew. "Our U.S. businesses grew EBITDA by 7.2% over last year, which enabled us to contribute more than $1.6 billion (1.2 billion euros) of EBITDA to the [Iberdrola] Group's strong performance," said Bob Kump, chief corporate officer of Iberdrola USA.

Subsidiary Iberdrola USA is the parent of New York State Electric & Gas, Rochester Gas & Electric, Central Maine Power and other natural gas units in Maine and New Hampshire, with a combined customer base of about 3 million.

Iberdrola officials pointed to a rate case in Maine that raised distribution rates by $24.3 million. Looking ahead, the company said it is on schedule and within budget for the Maine Power Reliability Program (MPRP), a $1.4 billion upgrade that includes 40 substations and 440 miles of transmission lines with links between Maine and New Brunswick, Canada.

The company is also due to file a rate case in the RG&E territory, which will positively affect earnings, it said. Other transmission investments are expected to pay dividends in the coming years.

"In New York now we're already involved in two projects, transmission projects, to inject electricity into New York City," CEO Ignacio Galan told analysts in the earnings call.

Through NYSEG and RG&E, Iberdrola is a partner in New York Transco, a joint venture designed to bring upstate power generation to the New York City area. It is also a partner in the Champlain Hudson Power Express project, which would ship hydropower from Quebec. (See *NYISO Supports TO Exemptions to BSM Rules*.)

ConEd Operations Best Q4 Estimate; Earnings Down for the Year

Consolidated Edison reported lower fourth-quarter earnings for 2014, but its $0.58/share showing for ongoing operations beat analysts' consensus by 2 cents.

The company said warm weather pinched its steam-delivery revenues service while operations and maintenance expenses were higher.

The New York City-based utility said earnings for the quarter were $81 million ($0.28/share) versus $234 million ($0.80/share) a year earlier. Earnings from ongoing operations — which exclude mark-to-market accounting for its competitive energy businesses among other items — were $171 million ($0.58/share), compared with $202 million ($0.69/share) for the final three months of 2013.

For all of 2014, earnings were $1.09 billion ($3.73/share) compared with $1.06 billion ($3.62/share) in 2013.

Ongoing operations for the year were $1.14 billion ($3.89/share) compared with $1.11 billion ($3.80/share) in 2013.

"We are preparing our energy grid to adopt many new technologies and new ways of delivering power, including more customer-sited generation resources," CEO John McAvoy said in a statement accompanying the earnings. "This effort reinforces our commitment to the environment with our business operations, promoting renewable resources, oil-to-gas conversions and new energy efficiency solutions for homes and businesses."

NiSource Profits Nudge up in Fourth Quarter

By Chris O'Malley

Fourth-quarter earnings of Northern Indiana Public Service Co. parent NiSource rose to $154.2 million ($0.49/share), up nearly 2% from $151.8 million ($0.48/share) a year ago. Fourth-quarter revenues rose 8% to $1.129 billion.

For all of 2014, net income was $530 million, down from $532 million in 2013 despite a 10% jump in revenues to $4.23 billion.

Highlights for the year included a record $2.2 billion capital investment program.

Earlier this month NiSource completed the initial public offering of Columbia Pipeline Partners, the spinoff of its natural gas pipeline business.

NiSource remains on-track to complete the Columbia transition in mid-2015, said president and CEO Robert Skaggs Jr.

Columbia will issue its own long-term debt prior to the separation to fund a one-time cash distribution to NiSource, reducing the latter's debt. NiSource shareholders will receive a one-time cash distribution in the form of a pro-rata dividend of shares in Columbia stock.

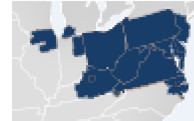
Because of the pending separation, NiSource did not provide full-year earnings guidance.

NiSource's electricity segment during the fourth quarter generated revenues of $392 million, compared with $386 million during the fourth quarter of 2013.

For the full year, electricity revenues were $1.68 billion, up from $1.56 billion in 2013. Increased environmental cost recovery and two transmission projects authorized by MISO boosted revenue by $5.1 million.

NIPSCO recently filed with the Indiana Utility Regulatory Commission an electric and natural gas capital expansion plan totaling $2 billion over seven years. Among the major projects in the plan is the 70-mile, 765-kV Greentown-Reynolds transmission line, to be completed by 2018.

PJM NEWS



PJM Defends Capacity Performance Proposal; Drops Change for LSEs

By Suzanne Herel

PJM rejected most of the criticism of its Capacity Performance proposal in comments filed late Friday, but dropped its proposed change in the method for determining the capacity obligations of load-serving entities.

"Based on the comments received … PJM proposes instead to discuss that issue further with stakeholders and report back to the commission in one year on the results of those discussions," PJM wrote in a filing with the Federal Energy Regulatory Commission (ER15-623). PJM noted that the allocation of LSEs' capacity obligations does not need to be resolved before the May 2015 RPM Base Residual Auction.

Concession

PJM also conceded merit to an assertion by the PJM Utilities Coalition (American Electric Power, Dayton Power and Light Co. , FirstEnergy and East Kentucky Power Cooperative) that there is a problem with a "one-year price" for a multi-year investment in generation.

"PJM did not propose any Tariff changes in the Dec. 12 filing on this issue and does not propose any now. However, given the additional costs of serving as a Capacity Performance resource, the possibility for new environmental rules to require even more investment in existing generation facilities and the commission's recent approval of an expansion for the new entry pricing available in ISO-New England, the time may be ripe to revisit this issue," it said.

PJM asked FERC to respond to the coalition's concerns by directing PJM to explore with stakeholders the subject of new entry pricing and multi-year pricing. PJM would report back to FERC on the issue no later than December.

Dozens of Comments

More than 60 entities filed comments and protests in response to PJM's proposal, which would increase the reliability expectations of capacity resources with a "no excuses" policy. It is expected to result in both larger capacity payments and higher penalties for non-performance. (See *States, LSEs Skeptical, Utilities Split Over Capacity Performance*.)

In their comments and protests, states and LSEs were skeptical about the need for a major overhaul, while generators were split over elements they liked and others they said must be changed.

PJM defended its changes to *force majeure* provisions, which some generators described as unduly punitive.

"Strong performance incentives are a vital part of the solution to poor resource performance," it said.

"The governing principle of this new approach is very simple and very conducive to innovation and efficiency: resources that exceed expectations will receive higher compensation; those that fall short of expectations will relinquish revenue and face a threat of net payments."

PJM noted that FERC received equally strong arguments that the proposed charge levels are too high and too low.

"As shown in the Dec. 12 filing, this part of PJM's proposal closely tracks the structure, and much of the details, of the approach recently approved for ISO-New England," it said.

Response on Renewables

PJM also responded to a number of public interest groups who said that renewable, energy efficiency and demand response resources would be disadvantaged in the new structure, saying "the actual suppliers of renewable and energy storage resources recognize that PJM's proposal to permit intermittent storage, demand response and energy efficiency resources ('Intermittent/Storage/DR/EE') to combine their capabilities offers a workable pathway for these resources to qualify as Capacity Performance resources. Parties also recognize that the ability of these resources to receive revenues for superior performance provides a new revenue stream that does not exist under today's capacity construct."

As for those who objected to the proposal as a reaction only to last year's polar vortex, PJM pointed to "deficiencies and disincentives" in the current Tariff relating to resource performance, including a "very weak" non-performance charge.

"The polar vortex provided a dramatic demonstration of these adverse effects. But the shortcomings in the current resource performance rules would still be there, and would still require correction, even if there had been no polar vortex," it said.

PJM requested that FERC approve the changes by April 1.

PJM Wins OK on Multi-Driver Tx Projects

PJM and its Transmission Owners won federal regulators' conditional approval for their plan to integrate multi-driver projects into the regional transmission expansion plan (RTEP).

The Federal Energy Regulatory Commission's Feb. 20 ruling (ER14-2864, ER14-2867) requires PJM to revise its Tariff to include the criteria it will use to determine whether and how to divide a multi-driver project that combines two or more proposed projects and two or more transmission developers.

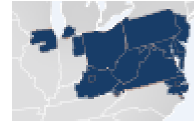
The commission also ordered PJM to clarify its definition of multi-driver projects. PJM proposed to define such projects as "a transmission enhancement or expansion that addresses more than one of the following: reliability violations, economic constraints or public policy requirements."

FERC said the definition "might be read to include reliability or economic transmission projects that also address public policy requirements for which PJM planned during the assumptions stage of the RTEP process," which would conflict with PJM's Order 1000 compliance filing.

PJM said the multi-driver concept could lower the cost of states' public policy transmission projects by incorporating them in upgrades that address market efficiency or reliability.

FERC initially responded to the RTO's filing with a deficiency notice asking for additional information on definitions, processes and cost allocation. (See *PJM, TOs Respond to Deficiency Notice on Multi-Driver Projects*

PJM NEWS



Exelon Sweetens the Deal for DC in Pepco Takeover

By Ted Caddell

In a bid to win D.C.'s approval of its takeover of Pepco Holdings Inc., Exelon last week more than doubled the amount of customer credits it is offering to $33.75 million from $14 million.

The offer to increase the "Customer Investment Fund" came on the heels of its success in New Jersey, where Exelon received full approval from the Board of Public Utilities, and Delaware, where it reached a settlement with the staff of the Public Service Commission and other parties.

Those advances didn't come cheap, though. The company originally offered $29 million in customer credits and other incentives to New Jersey customers but later upped that to $62 million. Their offer to Delaware started out at $17 million in direct customer credits, but the latest settlement offer — still to be acted on by the PSC — is $49 million in credits along with other incentives.

Not Convinced

Despite its improved offer, Exelon hasn't won the support of D.C.'s customer advocate. "The 'pot sweetener' is a factor that needs to be evaluated along with other factors in the case to determine if the proposal meets the public interest standard," People's Counsel Sandra Mattavous-Frye told *RTO Insider*. "By no means does this new proposal ... end the matter."

The company also enhanced its commitment to increasing reliability, vowing to meet or exceed the D.C. PSC's existing standards "without increasing Pepco's forecasted reliability spending." If Pepco does not achieve the reliability performance target, it would be subject to penalties of up to $5.6 million annually, the company said.

Mattavous-Frye said that Exelon had failed to address reliability concerns earlier.

"Reliability has been a focus for [the Office of the People's Counsel] for the past 10 to 12 years," she said Friday. Exelon's "new reliability commitment is vastly different than their position from the beginning of the case that they could not meet the reliability standard," she said. "Therefore, OPC is carefully evaluating the details that support this new commitment to ensure it is viable."

Exelon CEO Chris Crane said the latest offer shows that the company is paying attention to the needs of the District. "We've listened to the feedback of stakeholders in the District of Columbia and have substantially enhanced our proposed package," he said in a statement.

Delay Likely

The negotiations with state regulators are taking a toll on Exelon's timetable.

Initially, Exelon said that it anticipated closing the acquisition in the second quarter. Exelon spokesman Paul Adams said last week that it now appears the deal may not be consummated until the third quarter.

The D.C. PSC is scheduled to hold evidentiary hearings from March 30 through April 8, which would mean a decision in late July or early August, Mattavous-Frye said. She said talks between parties continue but, "at this point, it is not clear if a settlement will be reached in this case."

Maryland Remains

In addition to D.C., Exelon still must win support from regulators in Maryland. Adams said the company is prepared to up its offer to there too.

"During the hearings before the commission in Maryland, Exelon CEO Chris Crane made clear that Exelon would accept, as a final resolution of the matter in Maryland, a settlement on terms equivalent to the settlement in New Jersey" prorated for the number of customers, Adams said.

"The settlement in Delaware is equivalent to the New Jersey settlement, and both are equivalent to what we have offered in D.C.," Adams said. He did not say when a new offer to Maryland would be presented.

Exelon's initial offer of customer credits for Maryland was $40 million. The state's PSC staff has recommended $167 million in credits. The state's Office of People's Counsel has urged the PSC to turn down the deal as it stands.

PJM Wins on 2,000 MW Capacity Waiver; Purchase Plan Rejected

The Federal Energy Regulatory Commission approved PJM's request to retain 2,000 MW of capacity in yesterday's third Incremental Auction for 2015/16 but rejected its request to purchase capacity outside of the Reliability Pricing Model, calling it "unreasonably vague and ill-defined" (ER15-738).

PJM had requested the one-time waiver on rules that would otherwise require it to release 2,000 MW of capacity, saying it feared that it might run short due to retirements of coal-fired generation.

In approving the request, FERC rejected arguments by interveners who said the RTO's concerns were speculative. (See *PJM Responds to Critics on Capacity Release Filings*.)

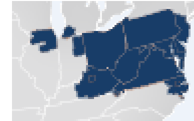
"The release of approximately 2,000 MW of committed capacity could yield a reserve margin below the established installed capacity needed to assure reliable service to loads," the commission said. "Moreover, given PJM's reliance on committed capacity resources, the poor performance of generating capacity resources last year and the expected high level of generation retirements, absent granting the waiver, PJM would face increased risks of being unable to serve load."

The commission, however, rebuffed PJM's request for permission to obtain additional capacity outside of its auctions.

"Capacity procured under the proposed Tariff provision would be in addition to the 2,000 MW procured at competitive prices under the waiver, and PJM has not provided just and reasonable Tariff provisions that specify the criteria for determining how much additional capacity it requires, nor how to determine whether those contracts are at just and reasonable prices," the commission ruled.

It said PJM could refile its request with more specifics to address the shortcomings in the initial filing.

PJM NEWS



Cold Sends PJM to New Winter Record

PJM set a new winter record for electricity use Friday, with demand hitting about 143,800 MW at 8 a.m., according to preliminary data.

Real-time prices peaked at 7 a.m., with prices hitting $564/MWh in the Dominion zone and almost $419/MWh RTO-wide.

The record came as at least two dozen cities in the RTO broke low-temperature records, including D.C., Wilmington, Del., Detroit, Cleveland, Cincinnati and Pittsburgh.

PJM had forecast a morning peak of 144,330 MW at 7 a.m. with available economic capacity of 160,958 MW.

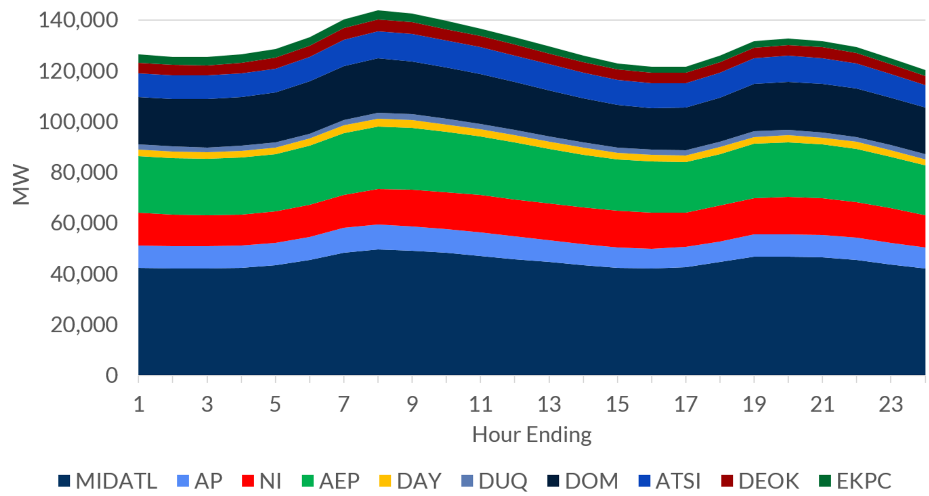
The RTO noted that although it was able to meet the load, about 12,000 MW of generation will retire this year, "making high performance essential from the rest of the generation fleet."

The previous peak was 141,846 MW on Jan. 7, 2014, (142,573 MW with demand response contributions added back in), when forced outages reached as high as 21%.

The RTO introduced several initiatives to improve performance for this winter, including voluntary testing of infrequently used generators. (See *PJM Hoping Testing Makes the Difference Before Winter*.)

It has also asked the Federal Energy Regulatory Commission to approve its Capacity Performance proposal, which would increase performance penalties and incentives. (See *PJM Defends Capacity Performance Proposal; Drops Change for LSEs*.)

USA Today reported that at least 72 record low temperatures were set Friday morning, from Marquette, Mich., (minus 26 F) to Miami (42 F).



PJM load, Feb. 20, 2015. (preliminary data) (Source: PJM)

The D.C. area was among the regions that experienced record cold weather last week.
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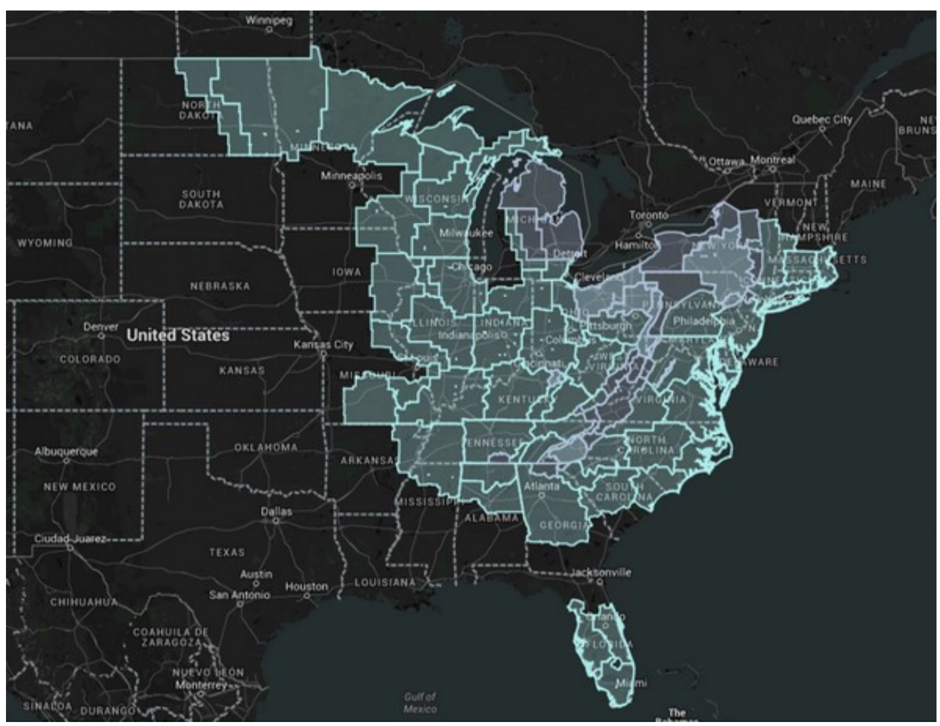
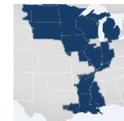


Wind chill warnings and advisories stretched from North Dakota to Florida last week. (Source: National Weather Service)

MISO NEWS



FERC Upends MISO's SSR Cost Allocation Practice

By Chris O'Malley


White Pine power plant (Source: Traxys)


Presque Isle power plant (Source: We Energies)

The Federal Energy Regulatory Commission denied MISO's request for a rehearing of the commission's July order that said the RTO could no longer allocate broadly within the American Transmission Co. pricing zone the costs of keeping open three power plants in Michigan's Upper Peninsula.

MISO must now file a new study method to identify entities that benefit directly from the three plants operating under system support resource agreements (SSRs) and allocate costs of the agreements directly to them, the commission ordered on Feb. 19 (EL14-34-001).

The SSR plants at issue are Presque Isle, White Pine and Escanaba.

A few days before FERC's order, however, Presque Isle owner We Energies asked MISO to seek the termination of SSR payments. We Energies acted after iron ore mining company Cliffs Natural Resources committed to remaining a customer of the aging 400-MW coal-fired plant near Marquette.

Wisconsin PSC Complaint

FERC's order is a win for the Wisconsin Public Service Commission, which filed a complaint last year alleging that MISO improperly allocated SSR costs on a pro rata basis to all load-serving entities in the ATC footprint.

The PSC argued that 92% of the projected $52.2 million in annual fixed costs under the original Presque Isle SSR agreement would be allocated to load-serving entities in Wisconsin even though they would receive only 42% of the benefits from the plant's continued operation.

FERC's Feb. 19 order also rejected MISO's request to revise cost allocation of the three SSR plants to reflect new, local balancing authorities established recently in the ATC pricing zone.

Michigan Complaints Moot

In a related order, FERC also dismissed as moot complaints that objected to the LBA and its cost allocation implications for the three SSR plants (ER14-103).

The Michigan Public Service Commission had alleged that Wisconsin Electric manipulated SSR cost allocation by splitting its LBA in half, with one portion encompassing Michigan's Upper Peninsula, to increase Michigan's allocation of SSR costs tenfold.

Michigan residential and commercial electric customers, along with numerous government agencies, flooded FERC with complaints about the effects the SSR allocation would have in the Upper Peninsula.

But FERC said the Michigan complaint was moot, as "we direct MISO to devise a new approach that will identify benefitting LSEs without relying on LBA boundaries."

FERC said it would address refund requirements in a future order involving MISO's new study methodology.

FERC Orders MISO to Use SPP Cost Allocation Method in Reliability Projects

By Chris O'Malley

MISO will have to adopt neighbor SPP's cost allocation method for interregional transmission facilities addressing reliability needs, and both RTOs must revise their proposal for public policy projects, the Federal Energy Regulatory Commission said Thursday.

However, FERC's Feb. 19 ruling (ER13-1937) accepted the RTOs' proposal to use adjusted production costs in allocating the costs of interregional transmission facilities addressing economic needs.

MISO and SPP agreed on a number of revisions to their joint operating agreement to comply with Order 1000's interregional planning requirements. But the RTOs could not agree on apportioning costs for reliability projects.

FERC rejected MISO's proposal to use only adjusted production costs to evaluate interregional reliability upgrades, saying it must adopt SPP's plan, which also incorporates avoided costs.

FERC said it agreed with SPP that "adjusted production cost only measures the generation and congestion cost to serve load and

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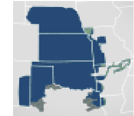
Ex-Minnesota Commissioner Joins MISO

Former Minnesota Public Utilities Commission Chairman David C. Boyd has joined MISO as vice president of government and regulatory affairs. Boyd, who served eight years on the commission, will be MISO's primary liaison with the governors and state regulatory and legislative policymakers in the 17-state region. (Source: Minnesota PUC)

SPP NEWS



FERC Approves SPP Mitigated Offer Changes

The Federal Energy Regulatory Commission last week approved changes to SPP's Tariff that clarify the circumstances under which market participants are able to modify their mitigated offers during the operating day.

The commission's order (ER15-714) approves three changes proposed by SPP to allow:

- Market participants to adjust their mitigated energy, start-up, no-load and operating reserve offers during the intra-day period when the resource faces an unexpected need to change fuel types or incurs higher fuel costs due to a commitment extension by SPP;
- "Quick-start" resources, which are able to generate power within 10 minutes of being notified by SPP, to address limitations in SPP's clearing engine by reflecting their start-up and no-load costs in their mitigated energy offer curves; and
- Resources with differences between their regulation and economic capacity operating limits to reflect in the real-time market their costs of ramping up or down.

"We find that the specific circumstances described in SPP's proposal warrant allowing market participants to make intra-day adjustments to their mitigated offers without first seeking approval from the Market Monitor in order to better represent the short-run marginal costs of production for their resources," FERC said.

SPP's Independent Market Monitor supported the changes.

FERC Orders MISO to Use SPP Cost Allocation Method

Continued from page 8

does not account for the quantifiable benefits of meeting public policy requirements or addressing reliability issues."

SPP argued that MISO's proposal disregarded the nature of the constraint and forced the use of a metric that is irrelevant for measuring the benefits associated with resolving a reliability constraint.

"We agree that SPP's proposal to use a combination of avoided costs and adjusted production cost savings allocates the costs of interregional transmission facilities addressing reliability needs to SPP and MISO in a manner that is at least roughly commensurate with the estimated benefits of the interregional transmission facility while ensuring that [the RTOs] are not involuntarily allocated costs of these interregional transmission facilities from which they do not benefit," FERC said.

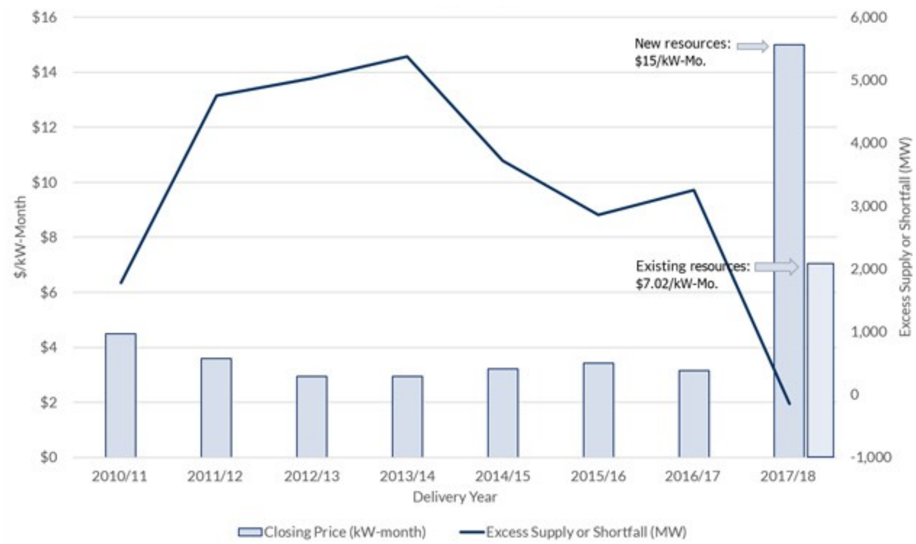
FERC, however, also faulted SPP because it said it would use a metric "yet to be determined" for public policy projects.

MISO and SPP will have 60 days to file revisions with the commission.

ISO-NE NEWS

LaFleur Rejects Further Review of 2014 ISO-NE Capacity Auction

By William Opalka



FCA 8 results. (Source: ISO-NE)

The Federal Energy Regulatory Commission once again dashed the hopes of the New England congressional delegation seeking to challenge the results of last year's capacity auction.

FERC Chairman Cheryl LaFleur wrote to the delegation on Feb. 18, telling members that FERC completed its review of the eighth Forward Capacity Auction when it denied a rehearing request in October.

"As that case is no longer an open case, we are unable to reopen the question of the justness and reasonableness of the FCA 8 rates," LaFleur wrote. "However, even if we could reopen that proceeding, I continue to believe that the rates resulting from FCA 8 are just and reasonable."

The auction became effective as an "operation of law" in September when the commission — then short one member — deadlocked 2-2 over whether to reject the results due to unchecked market power. (See *FERC Commissioners at Odds over ISO-NE Capacity Auction*).

The auction, held in February 2014, saw prices more than double from the previous year's auction to a total of about $3 billion.

FERC is back to its full complement of five commissioners with the addition of former Arkansas regulator Colette Honorable. The delegation wrote to the commission, asking it to use Federal Power Act section 205 or 206 authority to look at the ISO-NE rates that have resulted from the auction. Those rates take effect in the 2017/18 capacity commitment period.

"We strongly supported the commission's decision to conduct further review of the results of FCA 8 last summer but believe FERC's failure to make a conclusive decision in September 2014 has unfairly left the ratepayers of New England without appropriate redress," the delegation wrote Jan. 30. The letter was signed by six senators and 13 congressmen.

FCA 9, held Feb. 2, resulted in even higher prices — an estimated $4 billion for the 2018/19 capacity commitment period. Analysts said prices are likely to fall in the future as a result of new capacity that cleared in the 2015 auction. (See *ISO-NE Capacity Prices Likely to Fall in Future*.)

ISO-NE: Reverse Market-Solution Order

By William Opalka

ISO-NE asked the Federal Energy Regulatory Commission last week to reverse its order directing a market-based solution for the next winter reliability program.

The RTO said that mandating a market-based solution now, instead of in three years as it originally contemplated, is premature. "The options for developing a market-based solution in the context of existing obligations are, at best, potentially less effective than the winter reliability programs and, at worst, less effective, inefficient, controversial and expensive to implement," ISO-NE wrote in a Feb. 19 filing (ER14-2407-003).

ISO-NE's Pay-for-Performance program is set to debut in late 2018. The RTO has relied on out-of-market solutions to ensure reliability over the past two winters and said it needed the interim time to develop more permanent fixes.

However, power generators in New England argued that the most recent FERC order accepting the temporary fix meant that a market-based solution should be in place for the 2015-2016 season (ER14-2407). FERC agreed in a clarification of that order issued on Jan. 20. (See *FERC Orders Market-Based Reliability Program Next Winter in ISO-NE*.)

New England has experienced severe natural gas pipeline constraints as the region's power market switches to gas for power generation. Recent retirements of the Vermont Yankee nuclear station and coal-fired plants have also tightened supplies. The RTO has encouraged the development of dual-fuel generators with fuel oil as a backup.

ISO-NE said the program to ensure adequate fuel supplies has succeeded, as demonstrated in recent weeks as New England endures a prolonged cold spell.

It also said that power generators have not advanced any potential solutions in the January or February Markets Committee meetings and that the passage of time means that developing a market-based approach for next winter is infeasible.

ISO-NE wants to have the rehearing question resolved by June 1.

NYISO NEWS

FERC Orders NYISO to Standardize RMR Terms in Tariff

By William Opalka

NYISO must amend its Tariff to establish uniform rules for identifying and compensating reliability-must-run (RMR) generators, the Federal Energy Regulatory Commission ruled Thursday.

"Without such provisions, there is no assurance that generation resources will be treated on a not unduly discriminatory basis and have the opportunity to collect compensatory rates without a protracted proceeding," FERC ruled.

FERC ordered the ISO to make a compliance filing within 120 days specifying the rates, terms and conditions for RMR service (EL15-37).

Noting that the ISO has been unable for nearly four years to win stakeholder consensus regarding compensation for RMR units, FERC said "the commission thus has no expectation of NYISO and its stakeholders addressing the matter on their own. Yet, the need for RMR service remains."

FERC said the lack of uniform rules created uncertainty that could compromise system reliability. It ordered NYISO to include in its filing a process for determining which generation resources seeking to deactivate are needed for reliability; compensation for RMR service, including accelerated cost recovery for generators that require upgrades, retrofitting or other investments; and how RMR costs should be allocated.

The commission pointed to MISO's process for considering alternatives to RMRs, such as generator construction or transmission upgrades, and to PJM's cost allocation method.

RMR agreements should be of limited duration and not prolong out-of-market solutions, FERC added. In addition, the Tariff provisions must include rules to minimize incentives for generators to "toggle" between RMR compensation and market-based rates, FERC said.

"The commission appreciates that uneconomic units could become economic for a number of reasons, including changing market conditions and the need for and timing of capital investments," FERC said. "However, the commission is concerned that any proposed provisions not provide an incentive for a generation resource to propose to deactivate earlier than it otherwise would have in expectation of being needed for reliability and, therefore, be able to receive more revenues under an RMR service agreement than by remaining in the market."


Dunkirk power plant (Source: NRG Energy)

The order was spurred by two coal-fired generating stations in western New York, Dunkirk Power and Cayuga Operating Co., which had been targeted by their owners for mothballing.

The New York Public Service Commission had determined the two plants were needed to maintain reliability.

Dunkirk is a 635-MW, four-unit coal-fired plant outside Buffalo that owner NRG Energy sought to close in 2012. More recently, it won PSC approval to repower the plant as a 475-MW gas-fired station.

Cayuga is a 306-MW coal-fired plant in Lansing, near Ithaca, that is owned by Upstate New York Power Producers. It, too, sought to close its plant in 2012 due to economic factors and expensive upgrades needed to bring it into environmental compliance.

While the circumstances of the plants were similar, FERC noted that different filings were made before it or the PSC with various financial incentives to keep the plants operating. The companies requested cost-based RMR proceedings before FERC be held in abeyance while they negotiated reliability support services agreements (RSSAs) with the host utilities under the guidance of the PSC.

FERC last week rejected Dunkirk's 2012 filing of an unexecuted cost-of-service RMR agreement. FERC said no service was ever provided under the agreement and the time period covered by it has expired (ER12-2237).

FERC granted Cayuga's request to withdraw an unexecuted 2012 cost-of-service RMR agreement (ER13-405). Cayuga said the agreement was moot now that it has reached an agreement on an RSSA with New York State Electric & Gas.

Another RSSA proceeding in New York is underway to avoid the closing of the R.E. Ginna nuclear station outside Rochester. Plant owner Exelon and local utility Rochester Gas & Electric were ordered by the PSC to reach financial terms. Negotiations concluded and the agreement was filed with FERC and state regulators earlier this month. (See *Ginna Nuclear Plant Wins Contract to Keep Operating*).

FERC NEWS

FERC to OK 3rd Party Sales of Frequency Response

Generators would be permitted to sell frequency response services at market-based rates under a rule proposed by the Federal Energy Regulatory Commission last week.

FERC's notice of proposed rulemaking (RM15-2) was issued in response to a reliability standard the commission approved in January 2014 requiring balancing authorities to maintain minimum frequency-response obligations (BAL-003-1). (See *FERC OKs Rules on Geomagnetic Disturbances, Frequency Response*.)

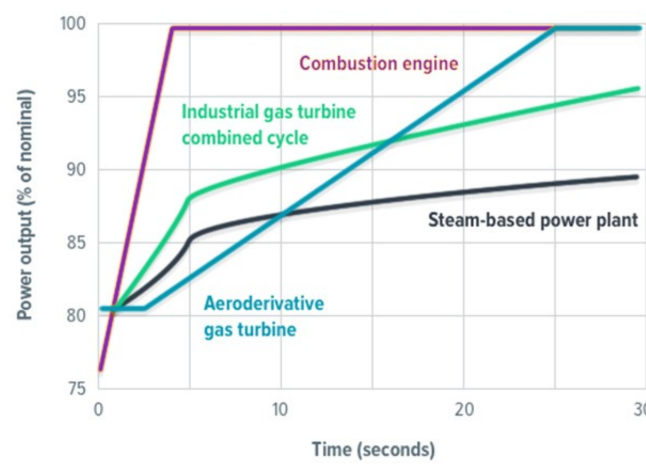
"While most balancing authorities should be able to meet the new reliability standard using their own resources, some may nevertheless be interested in purchasing primary frequency response service from others if doing so would be economically beneficial," the commission wrote, concluding "there could be interest in the near future in voluntary purchases of a primary frequency response product."

FERC would allow entities with market-based rate authority for energy and capacity to also sell frequency response at market-based rates.

The NOPR applies to generators providing primary frequency response — the ability to automatically change their output within seconds when the grid's frequency strays above or below 60 Hz.

It is distinguished from regulation — also known as secondary frequency response — which involves manual or automated dispatch from a centralized control system.

The requirements of the reliability standard will be phased in over a year beginning April 1. The commission expects to finalize the rule after a 60-day comment period.



Best in class response for primary frequency control. (Source: Wartsila Power Plants)

New NERC Enforcement Methods Allow Self-Logging Minor Risk Issues

By Michael Brooks

The Federal Energy Regulatory Commission last week approved a new risk-based approach to reliability compliance monitoring and enforcement, saying it will allow regulators to focus resources on the most serious issues (RR15-2).

The Reliability Assurance Initiative (RAI), a collaboration among NERC, the Regional Entities, and industry, is intended to streamline what reliability violations come under enforcement of the North American Electric Reliability Corp., with "minimal"-level risk issues subject to less oversight.

The new approach allows qualified facilities to self-log minor issues that they have identified and solved, instead of reporting them immediately to NERC. These logs will be periodically reviewed by NERC's Regional Entities, FERC said.

The initiative also includes a compliance monitoring program, which provides definitions of risk levels and violations, among other guidelines.

"A risk-based approach is necessary for a proper allocation of resources and to encourage registered entities to enhance internal controls, including those focused on the self-identification of noncompliance," NERC said in describing the new approach. The minimal risk issues will not be subject to NERC penalties. Instead they will be treated as "compliance exceptions." While RAI received broad support, some stakeholders disagreed with NERC's decision not to make these exceptions public. NERC had proposed to submit them monthly to FERC for review.

"Greater transparency, particularly in the first two transitional years as [NERC] gains experience with implementation of RAI, is essential to educating [the] industry to avoid and mitigate noncompliance with reliability standards and to maintain the credibility of NERC's compliance and enforcement regime," a group of stakeholders, including the American Public Power Association and the National Rural Electric Cooperative Association, said in a joint filing.

FERC agreed, requiring NERC to post exceptions similar to how it files Find, Fix and Track reports.

"We find arguments that publicly posting compliance exceptions is unnecessary or will discourage entities from taking advantage of the efficiencies of RAI unpersuasive," FERC said, alluding to comments by the Edison Electric Institute and the Electric Power Supply Association. "Public disclosure of compliance exceptions would appear to require only minimal additional resources since information will be compiled monthly in a spreadsheet and provided to the commission."

FERC directed NERC to submit a compliance filing within 90 days of the order outlining revisions to its rules and procedures incorporating RAI.

New Reliability Standard

In a separate order, FERC also approved a new NERC reliability standard, MOD-031-1, which allows planning authorities and coordinators to collect demand data to support reliability assessments (RM14-12). Transmission planners, balancing authorities and load-serving entities are required to provide data such as total internal demand, net energy for load and demand-side management.

FERC said the standard will improve consistency and efficiency as well as help identify where grid improvements are needed.

COMPANY BRIEFS

Calpine Building 345-MW Plant to Meet Increasing Minn. Demand

Calpine is building a 345-MW, gas-fired combined-cycle unit at the site of its 375-MW Mankato plant in Minnesota to meet the rising demand of Xcel Energy's Northern States Power-Minnesota utility.

The Minnesota Public Utilities Commission approved a 20-year power purchase agreement between Calpine and Northern States Power. The new unit is expected to start operations by mid-2018.

More: *Energy Central*

Navigant Predicts Smart Grid Market To Reach $29 Billion by 2023

A Navigant Research report said the market for smart grid technology will expand to $29 billion a year by 2020.

"The smart grid continues to mature, and communications technologies are also evolving in response," said Navigant Senior Research Analyst Richelle Elberg. "Whereas five years ago vendors and utilities were consumed with simply enabling grid communications, today they are focused on technology that is anticipated to enable a truly integrated system that links existing legacy technology with new technology from a variety of vendors."

The report also predicted that as smart grid technology is implemented, security needs will rise as well.

More: *Transmission & Distribution World*

Oops: PECO Customer Overpays Bill by $33K, Awaits Refund

A PECO Energy customer is waiting — somewhat impatiently — for a refund after his wife accidentally overpaid the couple's electric bill by more than $33,000.

Steve Onufrey, 71, of suburban Philadelphia, said his wife misplaced a decimal point when paying their $339.38 bill online, and paid the utility company $33,938 instead. Luckily, he had that much in the account because of a real estate transaction. He said it took him about a week to convince the company to issue a refund.

PECO Spokesman Ben Armstrong said the company is sending a paper check in the mail, as part of standard refund practice to prevent fraud.

More: *NBC 10*

NextEra Building 120-MW Wind Farm on Maui

NextEra Energy, which is completing its $4.3 billion purchase of Hawaiian Electric, is planning to build a 120-MW wind farm on state land on Maui.

The planned facility will be on about 500 acres on the southern slopes of Haleakala, and be built, owned and operated by NextEra Energy Resources.

The NextEra project is the latest wind-generation facility to sprout in Hawaii. Boston-based First Wind operates four wind farms on Maui and Oahu with a capacity of about 120 MW, and Sempra U.S. Gas & Power owns a 21-MW wind facility on Maui. Champlin Hawaii Holdings is in the planning stages of a 24-MW wind farm on Oahu.

More: *Pacific Business News*

Dynegy Lobbying Against AEP's Guaranteed Income Plan

Flexon

Dynegy CEO Bob Flexon spent an hour with Ohio Gov. John Kasich recently to argue against a competitor's plan to seek guaranteed income for some of its coal-fired plants.

Flexon told Columbus Business First that a proposal by rival AEP to seek long-term power purchase agreements for plants it says cannot compete would stifle incentives to build more efficient merchant generation plants in the region, at the expense of system reliability.

"When you want to create subsidies for a plant, you go into the huddle and pull out a playbook and have three plays: the reliability play, the jobs play and the local community play," Flexon said. Merchant generator Dynegy is near closing on a $2.8 billion deal to buy 11 Duke Energy plants in the region, including nine in Ohio.

More: *Columbus Business First*

Dayton Power and Light Names Tom Raga as New CEO

Tom Raga, who has headed up Dayton Power and Light's communications and government relations departments since 2010, was named the company's new president and CEO. He replaces Derek Porter, who held the position since 2013.

"Tom brings the business experience and proven leadership skills with a clear strategic vision to the role of president and CEO," said Ken Zagzebski, president of AES' U.S. strategic business unit, in a statement. AES is the parent company of DPL.

More: *Dayton Daily News*

PSEG Names Braun New Chief Nuclear Officer

Robert C. Braun, PSEG Nuclear's chief operating officer, has been named chief nuclear officer, replacing Thomas P. Joyce, who is retiring in March after 40 years in the industry.

Braun has been chief operating officer for 10 years and has 30 years of experience in nuclear operations. PSEG Nuclear operates the nuclear complex on Artificial Island in New Jersey.

More: *NJ.com*

NRG Can Be Sued over Coal Ash, Illinois Pollution Board Rules

The Illinois Pollution Control Board has ruled that environmental organizations can pursue a lawsuit against NRG Energy that alleges the Princeton, N.J., company has done nothing to keep harmful chemicals from coal ash dumps at four power plants it bought last year from Midwest Generation.

"The decision by the Illinois Pollution Control Board to allow an expanded lawsuit and investigation into NRG's coal ash disposal methods brings us one step closer to making sure local communities and bodies of water around these plants are adequately protected," said Holly Bender of the Sierra Club Beyond Coal Campaign.

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COMPANY BRIEFS

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Environmentalists allege that ash dumps at the Waukegan, Joliet, Romeoville and Pekin plants are leaking into the ground and into water supplies.

More: *Progress Illinois*

Darn Reply-All: Ameren Accidentally Shares Negotiating Position

Ameren Missouri has filed for a $264 million rate increase with the Missouri Public Service Commission, but it inadvertently disclosed that it would be willing accept about $100 million less.

Ameren told its investors in a Securities and Exchange Commission filing that it had accidentally shared its proposed settlement position with all of the parties in a series of electronic document transfers meant to go only to the PSC staff. Ameren said it had "inadvertently" disclosed the proposed settlement to all the parties but made no further comment.

More: *St. Louis Post-Dispatch*

PPL Transferring Nuke Staff to Susquehanna Amidst Rumors

PPL is transferring 88 engineer and technical support staff members associated with its nuclear operations from its Allentown, Pa., headquarters to its Susquehanna nuclear generating station in Berwick, Pa.

The announcement came amid market speculation that PPL might be looking to sell more generation assets. It is currently spinning off most of its power generation assets, along with those owned by Riverstone Holdings, into a new company called Talen Energy.

A company spokesman said engineering and support for the plants under the Talen name will remain in Allentown. *The Morning Call* reported that rumors are circulating that Talen may already be looking to buy more generation assets, but the company declined to comment on the rumors. The Talen spinoff has yet to achieve approval from the Federal Energy Regulatory Commission.

More: *The Morning Call*

Exelon Expects Illinois Legislation Benefiting Nukes to be Introduced

Exelon, which has been lobbying hard for legislation to favor its six nuclear reactors in Illinois, said it expects a bill to be introduced in the Illinois General Assembly as soon as March. William Von Hoene Jr., the company's chief strategy officer, said during an earnings conference call that it expects bi-partisan support for the measure.

Details of the bill haven't been released, but Exelon has long complained that its nuclear fleet doesn't get credit for being a carbon-free generation source, making it hard to compete against subsidized renewable energy. It has warned that without some sort of relief, it may have to shut down some or all of its nuclear sites in the state.

More: *Midwest Energy News*

-- Compiled by Ted Caddell

FEDERAL BRIEFS

NRC Gives Entergy's Pilgrim Shutdown Good Marks

The Nuclear Regulatory Commission said it was pleased with the way Entergy employees handled a shutdown of Pilgrim Nuclear Power Station during a blizzard in January, but it is continuing a review of the incident.

"We hope there are lessons learned that get incorporated for all future significant storms, because this has been twice in recent years where severe winter weather has resulted in a loss of offsite power and the plant having to shut down," NRC spokesman Neil Sheehan said.

Equipment issues caused the plant to remain shut down for 12 days following January's blizzard. The NRC plans to release a final report of its review 45 days after it completes an inspection.

More: *CapeCod.com*

Chairman Says NRC Will Complete Yucca Review

Burns

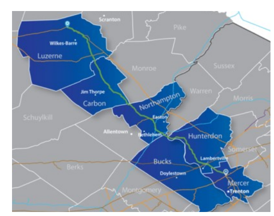
The Nuclear Regulatory Commission will take over the environmental review of the proposed Yucca Mountain nuclear waste repository because the Department of Energy won't, according to Chairman Stephen Burns.

The NRC has found that the project could be built and operated safely, but construction can't begin until the environmental review is complete. Burns said the agency has funds available to cover the costs of preparing a supplemental environmental impact statement.

More: *E&E Publishing*

Opponents Gathering for FERC Hearings on PennEast Pipeline

The Federal Energy Regulatory Commission is holding two public hearings this week in New Jersey on the proposed $1.2 billion PennEast natural gas line. The 114-mile pipeline would run from Northeastern Pennsylvania across the Delaware River to New Jersey and would deliver gas from the Marcellus Shale region to East Coast markets.



Opposition has grown since the pipeline was announced in October. "There is a concern that one new pipeline can become a pipeline corridor," said Paul Pogorzelski, Hopewell Township Administrator. The township has filed letters of opposition with FERC.

One hearing is scheduled for Wednesday in Ewing, N.J., and another Thursday in Hunterdon County.

More: *NJ.com*

Continued on page 15

Federal Briefs

Continued from page 14

FERC OKs Environmental Study For Puerto Rico LNG Terminal

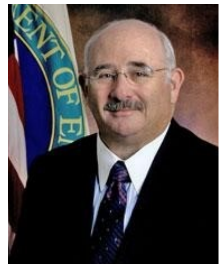
The Federal Energy Regulatory Commission approved the final Environmental Impact Statement for the proposed Aguirre Offshore GasPort Project in Puerto Rico. The floating plant would convert liquefied natural gas that arrives by ships into usable gas for Puerto Rican customers.

FERC concluded that the project would result in minimal environmental impact, mostly during construction, and that the completed LNG terminal would help improve the environment through decreased barge traffic in the area.

The environmental review took three years. Excelerate Energy is developing the project in cooperation with the Puerto Rico Electric Power Authority.

More: *Green Tech Media*

IG Report: DOE Conferences Spent $21M on Golf, Dinner Cruises



Inspector General Gregory Friedman

A Department of Energy inspector general's report shows that the department spent $21 million over 16 months on social events at conferences. The report shows that the expenses were racked up during 300 conferences between April 2013 and September 2014.

"We found that attendance at some conferences included associated social events," according to the report. "For example, [Energy Department documents] showed department-sponsored conferences that included a casino night, Super Bowl party, golf tournament, banquet on a dinner cruise boat, dinner at the NASCAR Hall of Fame and a tour and dinner at an aquarium."

More: *Washington Times*

BOEM to Hold Meeting in NJ Before Offshore Drilling Starts

Three New Jersey lawmakers obtained a promise from the U.S. Bureau of Ocean Energy Management to hold a public meeting before the Obama administration opens up parts of the Atlantic Ocean to oil and gas drilling.

Though the areas that the agency has proposed for oil exploration are located hundreds of miles south of New Jersey, Sens. Robert Menendez and Cory Booker and Rep. Frank Pallone sent a letter to the White House expressing their concerns with potential spills on New Jersey's shore. They asked for a public comment session to be held before any final permits were granted.

BOEM last week promised to hold a public meeting. Booker called it an "important first step in helping the Obama administration understand the severity of the environmental and economic risks to New Jersey if oil and gas drilling in the Atlantic Ocean's fragile ecosystem is permitted."

More: *Press of Atlantic City*

-- Compiled by Ted Caddell

State Briefs

DELAWARE

DNREC Taking Public Comment on Controversial Refinery Water Permit

A plan by the Delaware City Refinery to upgrade its cooling water intake and discharge will be the subject of a public comment session on March 24.

The Department of Natural Resources and Environmental Control in December said it had reached a draft agreement with refinery owner PBF Energy that calls for the company to spend up to $10 million to reduce aquatic life deaths at its water intakes. Environmentalists, however, have called for measures to force the company to build a more expensive cooling tower system for the refinery to recycle cooling water, rather than the current method of drawing and discharging water directly from the Delaware River.

More: *The News Journal*

ILLINOIS

Lawmakers Introduce Bill to 'Fix' RPS, Set New Standards

Illinois lawmakers have introduced a bill that would increase the state's renewable portfolio standard to 35% by 2030. The current standard calls for 25% of the state's energy to be generated by renewable sources by 2025.

The bill, sponsored by state Sen. Don Harmon and Rep. Elaine Nekritz, directs the Illinois Power Agency to develop a long-term plan for renewables. The bill also provides guarantees that utilities will support residential and community solar installations, and encourages construction of utility-scale solar to be built on brownfields.

The legislation also directs the state Environmental Protection Agency to develop market-based strategies to reduce carbon emissions in the state.

More: *Midwest Energy News*

INDIANA

House Committee Passes Bill Limiting Payments for Solar, Wind

A House committee last week passed a bill that would establish a fixed rate that utilities pay residential renewable energy owners, drawing protests from advocates.

The bill, HB 1320, would set a fixed rate that utilities would have to pay for electricity

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STATE BRIEFS

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that small-scale solar and wind generators feed back to the grid. Opponents of the bill say they are worried that it would reduce incentives for small solar producers and that it could allow utilities to unfairly profit from reselling the power to other customers on their systems.

"For the last 10 years of my career, I've been working hard to develop a solar energy market in southern Indiana," said Brad Morton, an Evansville resident and owner of Morton Solar. "HB 1320 takes away any little bit of economic incentive for rooftop solar and puts it right into the pockets of the utility companies."

More: *Indianapolis Business Journal*

IOWA

Utilities Board Turns Down Request For Separate Clean Line Hearing

The Utilities Board turned down a request from Clean Line Energy Partners to hold a special hearing to examine eminent domain issues associated with the company's planned 500-mile Rock Island Line transmission project.

The commission, which needs to grant eminent domain rights as part of its approval process, said a separate hearing on eminent domain would inconvenience property owners along the transmission line's route while providing a benefit to the company.

The company said the $2 billion project is going forward. The line would run from northwestern Iowa to Illinois. The project has already received approval from the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

More: *The Gazette*

MANITOBA

Public Utilities Board Denies Manitoba Hydro's Rate Hike

The Public Utilities Board rejected Manitoba Hydro's application for a 3.95% rate hike that would have gone into effect April 1.

It was good news for those who think the company's rate hike requests are too frequent. "We are pleased the PUB has taken the side of Manitobans who pay the bills," said Hydro critic Ralph Eichler. "We see Hydro as an asset owned by all Manitobans that must be managed thoughtfully and it appears the PUB agrees with us on this."

Manitoba Hydro may still apply for a rate hike later in the year, however.

More: *The Reminder*

MARYLAND

Bill Would Stop Fees for Customers Who Don't Want Smart Meters

Two Maryland lawmakers are filing bills that would prohibit utilities from charging customers who don't want smart meters on their homes or businesses.

Currently, the Public Service Commission allows customers to opt out of the various smart meter programs in the state, but it allows utilities to charge those customers fees to pay for the manual reading of their meters. Pepco charges an upfront fee of $75 for not getting a smart meter and a monthly charge of $11 to $17. Baltimore Gas & Electric, Delmarva Power & Light and Southern Maryland Electric Cooperative also charge to opt out of the programs.

A bill sponsored by Sen. Nathaniel J. McFadden and Del. Glen Glass would stop the fees, and also require utilities to notify customers before smart meters are installed. Pepco indicated that it would fight the bill.

More: *The Gazette*

MASSACHUSETTS

Report: Death of Cape Wind Project Shows Need for State Cooperation

The death of the Cape Wind project is an illustration of everything wrong with U.S. wind energy policy, according to a report commissioned by the Clean Energy Group.

The $2.6 billion project off Cape Cod was becalmed last month when two utilities with power purchase agreements backed out after Cape Wind missed financing deadlines.

The report said that instead of securing approval by one state, future projects should get an entire region to support the projects. "While the Cape Wind project floundered amidst fierce local opposition, the project's difficulties highlight a larger policy problem — it is difficult, if not impossible, for any single state to jumpstart the offshore wind industry," the report states.

More: *FierceEnergy*

MISSISSIPPI

Supreme Court Orders Mississippi Power to Return Money

The state Supreme Court has ordered Southern Co. subsidiary Mississippi Power to refund $271 million in rate increases that it said the Public Service Commission improperly imposed to pay for a costly power plant.

The court's decision concerns the PSC's decision to allow rate recovery of Mississippi Power's over-budget Kemper County integrated gasification combined-cycle plant. The commission allowed Mississippi Power to collect $125 million for construction costs in 2013 and another $156 million in 2014. The 582-MW plant has been plagued by cost overruns and delays.

The PSC, according to the ruling, never found that the funds were "prudently incurred," a requirement for recovery. It also found that the PSC erred in not giving proper notice to the public about the company's request for recovery, and by keeping confidential related information. "The commission's decision to govern in a cloak of secrecy and grant confidentiality to rate-impact information was arbitrary and capricious," the ruling said.

More: *Power Magazine*

MISSOURI

PSC Wants More Info from Clean Line on Grain Belt

The Public Service Commission wants more information from Clean Line Energy Partners about its proposed 700-mile Grain Belt Express transmission line project before it will consider approving it.

The PSC said new questions arose after a series of technical hearings in Jefferson City about the project, which would deliver electricity from Midwestern wind farms in the east.

Opponents seeking to thwart the project

Continued on page 17

STATE BRIEFS

Continued from page 16

declared victory. The commission's order for more information is "a very tall order and will take considerable time and funds to produce," said a group called Block Grain Belt Express. "We interpret this as an extremely promising sign."

More: *News Press*

NEBRASKA

Keystone Opponents Vow to Keep Fighting No Matter What Feds Do

Keystone XL pipeline opponents said they will continue to fight a change in state law that allowed former Gov. Dave Heineman to approve the pipeline's route, bypassing the Public Service Commission.

A group called Bold Nebraska has filed suit in state court to overturn the law and to give the routing decision back to the PSC. Opponents are also pressuring lawmakers to overturn the law.

TransCanada, the company seeking to build the pipeline, said it was temporarily halting efforts to seek route approvals in Nebraska. That move came a week after a Nebraska district court judge issued a temporary injunction barring the company from invoking eminent domain along the northern Nebraska pipeline route.

More: *Grand Island Independent*

NEW YORK

Cuomo Calls to Boost Oil Spill Fund From $25 Million to $40 Million

A day after a train carrying crude oil derailed and burst into flames in West Virginia, Gov. Andrew Cuomo's administration proposed raising New York's soil spill fund from $25 million to $40 million and shifting its control from the state comptroller to the Department of Environmental Conservation.

The fund is used for immediate payment of cleanup costs and is financed by penalties paid by violators. Albany has become an important oil-train hub since the boom in Bakken crude.

More: *PennEnergy*

NORTH CAROLINA

Supreme Court Sides with Duke On 2 Challenges to Rate Hike

The state Supreme Court on Wednesday upheld the Utilities Commission's approval of a 2013 Duke Energy Carolinas rate hike, turning away challenges by the state Attorney General and NC WARN, a solar advocacy group.

The rate increase was based partly upon a 10.2% return on equity that the commission allowed Duke. NC WARN had argued that the company's allocation of costs discriminated against residential customers. In December, the court upheld the company's 2012 rate case. Attorney General Roy Cooper, who is eyeing a 2016 gubernatorial bid, has challenged several Duke rate increases.

More: *Charlotte Observer*

NORTH DAKOTA

TransCanada Proposes Another Pipeline — to Send Oil to Canada

The company that wants to build the Keystone XL pipeline is now proposing a second pipeline — this one to deliver oil from the state into Canada.

TransCanada is proposing to build a $600 million pipeline to go from northwestern North Dakota to Saskatchewan. The Upland Pipeline will need approval from the U.S. State Department, the Public Service Commission and Canada's National Energy Board.

More: *WDIO*

OHIO

Supreme Court Rules States have Exclusive Authority over Fracking

The state Supreme Court has ruled that states have "exclusive authority" over hydraulic fracturing, and that cities and counties cannot regulate or ban the practice.

The 4-3 vote held that the Department of Natural Resources in 2004 was given the power to license and regulate where the state's wells can be drilled. The ruling was seen as a victory for oil and gas producers, who often faced local opposition.

"We have consistently held that a municipal-licensing ordinance conflicts with a state-licensing scheme if the local ordinance restricts an activity which a state license permits," wrote Justice Judith L. French in the majority opinion.

More: *The Columbus Dispatch*

PENNSYLVANIA

State Audit IDs Millions in Possible FirstEnergy Savings

A performance audit of FirstEnergy's four utilities in the state identified ways to save nearly $20 million in one-time savings and a further $3.7 million annually.

The state audit made 28 recommendations. FirstEnergy has accepted 25 of them and is working to put new procedures in place by the end of 2019. The audit looked at 14 areas such as customer service, emergency preparedness and inventory management. The auditors said West Penn Power could save $8.4 million in inventory control improvements alone.

More: *Pittsburgh Post-Gazette*

VERMONT

Public Service Department Asks For NRC Hearings on Yankee Plan

The Department of Public Service asked federal regulators to hold hearings on Entergy's plan to cut back on emergency responsibilities now that its Vermont Yankee nuclear generating station has been permanently shut down.

The Nuclear Regulatory Commission said last week that it is setting up an Atomic Safety and Licensing Board panel to review the proposed changes. Entergy has said it wants to reduce its emergency responsibilities to reflect the plant's lower risk profile.

More: *Manchester Journal*

Continued on page 18

STATE BRIEFS

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WEST VIRGINIA

PSC Approves New 549-MW Combined-Cycle Plant

The Public Service Commission issued a siting certificate to Moundsville Power for a 549-MW combined-cycle natural gas plant in Marshall County that will also be the first U.S. plant able to burn ethane.

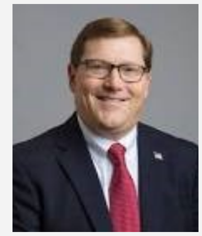
The certificate allows Moundsville to seek financing for the $815 million project. When completed in early 2018, the plant will become a wholesale generator in the PJM market. In addition to helping offset carbon emissions from coal-fired plants, the Moundsville project will secure its natural gas and ethane from state sources.

More: PowerMag

WISCONSIN

Walker Appoints Ex-MG&E Exec to Cabinet Position

Gov. Scott Walker named a former Madison Gas & Electric executive to head the state Department of Administration.



Neitzel

Scott Neitzel was named as the department's new secretary a week after he abruptly resigned from a senior vice president position at MG&E. He is replacing Mike Huebsch, who is moving to the Public Service Commission.

Neitzel gave no reason for leaving MG&E, where he'd worked since 1997. He left behind a $315,180 salary. Before working at MG&E, he served a five-year term with the PSC.

More: Wisconsin State Journal

-- Compiled by Ted Caddell

Retiring PJM CEO Boston Lauded for Efficiency Improvements, Management Style

Continued from page 1

"Terry brought PJM through a difficult period," said Joe Bowring, the employee who challenged PJM's credibility under former management and is now Independent Market Monitor for the RTO. "When he first got to PJM, he actively reached out to the Market Monitor unit, which we appreciated very much. He listened to us and all market participants."

Now, North America's largest power grid operator finds itself at the edge of another major change as Boston, 64, prepares to retire by the end of the year.

"I've been working in the utility industry for 43 years. It's been a wonderful and rewarding career, but all good things must come to an end," Boston told *RTO Insider*. "I am looking forward to spending more time visiting our kids, helping out our daughter Rachel with her career as an actress and getting out on our boat, which I haven't been on in two years.

"I will continue on several boards and industry/professional groups. Most recently I'm involved with the Bipartisan Policy Center on energy policy and grid security and the National Academy of Engineering working on energy and the environment and improved analytics for the power system. I hope to remain engaged with the industry at a somewhat less demanding pace than working half days — that's 12 hours per day," Boston said.

Encouraging Team-Building

Boston is widely regarded by those who have worked with him during his time at PJM as a forward-thinking, approachable leader, a straight-shooter who strives for consensus and encourages team-building. The Tennessee native also enlivens meetings with his quirky sense of humor: To invoke the feel of a "fireside chat" at PJM's General Session in February 2014, he propped up a tablet showing a video of a burning yule log on the stage.

"He's been a real positive player in terms of a stable presence at PJM, with the vision of trying to see where it's going. Particularly in the last year they've been very helpful in, No. 1, admitting they didn't take gas-electric [coordination] as seriously as they should have, and No. 2, doing something about it," said Federal Energy Regulatory Commissioner Philip Moeller. "He's a great guy — he'll be missed. But he deserves a lot of accolades as he winds it down."

Sonny Popowsky, a former Pennsylvania state consumer advocate, sat with Boston on the board of the North American Electric Reliability Corp.

"He came in to PJM at a time of some turmoil with what direction we were headed and what the role of the markets was in terms of maintaining reliability," Popowsky said. "When he came from TVA, he came with a strong background that focused on engineering and reliability. But he also came with an openness to the kind of market solutions that PJM is famous for. He's been able to combine that really well.

Boston, left, has a reputation as an approachable and affable leader.

"I think he's just added a real level of stability and openness," he said.

A Vocal Proponent of Consensus

Boston has publicly expressed his frustration with the number of Section 206 filings — used when stakeholders fail to reach consensus — submitted to FERC last year, including the request to raise the price-based energy offer cap from $1,000 to $1,800.

"Our ability to govern ourselves in the

Continued on page 19

Retiring PJM CEO Boston Lauded for Efficiency Improvements, Management Style

Continued from page 18

stakeholder process depends in large part on compromise," he told the Markets and Reliability Committee at its year-end meeting. He opened the first MRC meeting of 2015 with another plea for consensus. The year ahead will hold a number of challenges, he said, especially as the RTO faces "the fastest fuel change in industry history" from coal-fired plants to natural gas.

In announcing Boston's plans for retirement last week, Board of Managers Chairman Howard Schneider said on behalf of the group, "Terry's deep knowledge of the electricity industry, strong business ethics and ability to forge strong relationships with PJM's stakeholders have been instrumental in the success of PJM."

During Boston's tenure, PJM increased its billings from $30.6 billion in 2007 to more than $42 billion in 2014 while the RTO's membership grew from 500 to more than 900 companies.

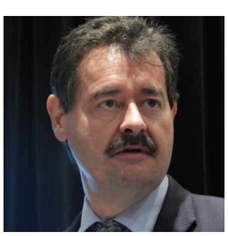
In 2008, Boston implemented "perfect dispatch," a metric denoting the lowest production cost possible while maintaining reliability, which the company uses as a baseline to analyze and improve dispatch efficiency. According to PJM, the process has saved a cumulative $842 million — three times the cost of PJM's annual operating budget.

At TVA, Boston ran the storm center for 20 years, and while at NERC he sat on the steering committee that investigated the 2003 Northeast blackout.

"I'm proud that PJM and our members met three one-in-100-year weather events in the last four years — and the polar vortex was not one of them," Boston said. "They were the hottest day of record in 2011, followed by the derechos and Hurricane Sandy in 2012. In addition, we've met back-to-back all-time winter peaks in January 2014 and February 2015."

Who Will Take Boston's Place?

As for who will take the top spot, PJM says a "rigorous succession process" has been underway. "Candidates to succeed Boston will be considered on demonstrated leadership abilities, in-



Andy Ott

Mike Kormos

dustry expertise and reputation, as well as commitment to electric system reliability and fair, efficient electric markets," it said in a press release.

Among potential in-house candidates are Executive Vice President for Operations Mike Kormos and Executive Vice President for Markets Andy Ott, who frequently represent PJM before FERC and in industry forums. With higher titles, but lower public profiles, are Chief Financial Officer Suzanne Daugherty and General Counsel Vince Duane, both of whom hold the rank of senior vice president.

During a break at FERC's technical conference on the Environmental Protection Agency's proposed carbon rule last week, Kormos told *RTO Insider* that he was "absolutely" interested in the job.

His colleagues on the executive team did not respond to requests for comment on their interest in the position.

While the Board of Managers has identified no candidates, stakeholders are firm in the type of person they'd like to see assume the role.

"Somebody similar, with not only the ability to have a vision but to also manage a diverse set of stakeholders that range from, obviously, members of PJM to state commissions and state governments and FERC," Moeller said. "It's a lot of relationships to manage, and so you've got to have the right personality as well."

Popowsky suggested that the board choose someone ideologically open, as he said Boston has been.

"Someone who says, 'What's the best combination of markets and regulation to produce the paramount goal of a reliable electric system that's affordable to the folks who depend on it?'" he said.

Boston said his successor will face a number of challenges.

"Certainly, dealing with the largest and most rapid fuel shift in history has many downstream impacts. I believe it's manageable, but it will take a lot of work to get through it," Boston said. "The future of demand response and renewables, the introduction of new technologies and new consumer-use patterns, grid security and the growing complexity of the business all are challenges that I expect will keep my successor and the

Boston speaks at PJM 's 2014 Annual Meeting.

entire PJM team very busy."

College Classmate-Turned-Sweetheart, Family Life

Boston has served on numerous industry boards and is the immediate past president of the GO15 international association of large grid operators. Last year, he was elected to the National Academy of Engineering.

He holds a bachelor's degree in engineering from Tennessee Technological University and a master's degree in engineering administration from the University of Tennessee.

It was at Tennessee Tech that Boston met his wife-to-be, Brenda, when they shared an organic chemistry class. The couple have three children: Rachel, a prolific actor who most recently played Ingrid Beauchamp in the TV series "Witches of East End;" Andrew, who earned a master's in business administration from Harvard and now is an investor with Founders Circle Capital in San Francisco; and Brian, a graduate student at the University of Hawaii, where he is earning his doctorate in geophysics.

"Andrew was a world-class rower for Harvard and Oxford," Boston said. Andrew worked on and sold a high-tech startup to a London company before going to Harvard.

"Brian, our youngest, will be the first Ph.D. in the family when he graduates this year from the University of Hawaii in geophysics. Last year, he worked on a Japanese research ship to collect data from the deepest research hole ever drilled through two tectonic plates to better understand the Fukushima earthquake zone off the coast of Japan.

"The kids were always busy with school and sports. They learned a strong work ethic and found that hard work pays off," Boston said.

MISO Board to Review Entergy Lake Charles Project Following Stakeholder Pushback

Continued from page 1

The MISO board must approve all out-of-cycle requests but only conducts "full" reviews for those receiving negative votes at the PAC.

George Dawe, vice president of Duke-American Transmission Co. and the representative for the transmission developers, told the PAC that MISO had failed to follow its procedures in all of the out-of-cycle requests and that the Lake Charles project failed to meet MISO's out-of-cycle criteria.

MISO's transmission planning rules allow out-of-cycle consideration for reliability needs identified after the deadline for inclusion in the annual Transmission Expansion Plan if the project is needed within three years and expected in service within four years. Entergy submitted the request last December, saying increased industrial demand requires the project be completed by June 2018.

Dawe argued that Lake Charles isn't a baseline reliability project. He also said Entergy had not defined the new load it is citing as the need for the project. He said the scope of the project — including two new substations and 25 miles of 500-kV and 230-kV transmission — appears to be speculative, "beyond what is needed to reasonably serve load."

Jeff Webb, MISO's director of planning, repeatedly pressed Dawe to specify exactly how MISO was deviating from established procedures. He also asked that opponents state what alternatives they would suggest while still meeting the June 2018 in-service date sought by Entergy.

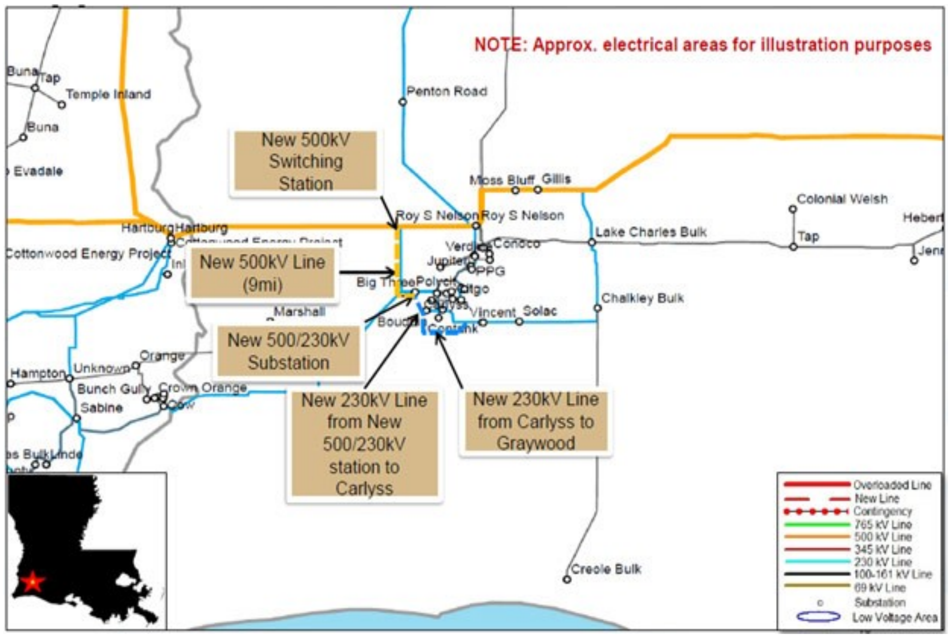
"I have trouble seeing how we are deviating from the process," Webb said.

Stakeholders: Not Enough Details to Justify

"Generally," Dawe replied, "more information has to be provided regarding this OOC project."

Dawe said he would like to see evidence that MISO verified Entergy's load requirements and consideration of alternatives to the project as proposed. "In our view … this project is ripe for [a] market-efficiency project" that could serve ratepayers more efficiently and cost-effectively, Dawe said.

MISO officials told the South Technical Study Task Force on Feb. 11 that they studied alternative ways to route power to the growing area but all were fraught with performance or permitting problems. (See



Proposed Lake Charles project. (Source: MISO)

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

Webb said that if MISO spent another month determining whether Lake Charles qualified as an efficiency project and should be opened to competition, it's likely that "we wouldn't have an approved developer until a year from now."

The question then would be whether service would be in place in time. "You're asking us, MISO, to take a huge risk," Webb added.

Dawe reiterated that he didn't believe Lake Charles met the qualifications for out-of-cycle status.

Beyond Reliability Needs?

Cynthia Crane, senior policy analyst at ITC Holdings and representing the transmission owners sector, said the need for the upgrades has not been clearly demonstrated, raising doubts about the certainty of Entergy's need date.

Tia Elliott, director of regulatory affairs for NRG Energy and the IPP sector's representative, told the PAC that the sheer size of the Lake Charles project warrants further scrutiny.

The project is said to be key in bringing another 617 MW to the Lake Charles area to support a rebounding industrial base.

Crane said her company's engineers looked at the proposed project and have some concerns that it is larger than is needed for just reliability purposes.

Another issue, she said, is declining oil prices, which portend a potential economic slowdown in the Gulf region. That raises the question of whether Entergy will need the upgrades as early as it has stated, she said.

Clouded by Customer Confidentiality

Webb, as he has in previous meetings in which the Entergy request has been discussed, said Entergy's need for the project was consistent with previous growth projections presented by the utility and with growth trends in the region.

Charles Long, director of transmission planning for Entergy Services, said the company would have had to have known about additional customer demand by September 2013 to have made the request during the normal MTEP process.

Entergy filed the Lake Charles request with MISO on Dec. 15, saying it learned of the new demand Dec. 1.

MISO said that it has not been privy to customer communications with Entergy about their expansion plans. Entergy has said that information is confidential for competitive reasons.

One stakeholder suggested that utilities that cite confidentiality claims as a reason not to be as forthcoming with MISO should be summarily denied out-of-cycle requests.

Webb said he didn't think MISO has the authority to delve into confidentiality agreements between a utility and its industrial customers.

EPA to Stakeholders at FERC, NARUC: We're Listening

Continued from page 1

can design their [compliance] plans with the certainty they're looking for," she said.

Later that day, Janet McCabe, acting assistant administrator for EPA's Office of Air and Radiation, appeared on a NARUC panel discussion with FERC Commissioner Philip Moeller. McCabe and Moeller spoke after listening to utility regulators from states both supportive of the plan (California and Maryland) and those highly critical of it (Wisconsin, Wyoming, Arkansas and Texas).

McCabe also was the leadoff witness at FERC's day-long technical conference on the reliability impacts of the plan Thursday.

The topics at the two forums included the "early cliff" of 2020 targets; states' willingness to embrace regional and market compliance methods; how to craft a "reliability safety valve;" and the limitations of Order 1000.

In addition to McCabe, FERC heard from more than two dozen state regulators and industry and RTO officials — and about 10 protestors. The demonstrators, wearing red T-shirts and carrying signs, broke several times into chants of "Gas is dirty, wind and solar now," before being escorted out by security.

McCabe Vague on Alternatives to Building Blocks

Many critics have challenged the assumptions in EPA's four "building blocks" for achieving compliance: heat rate improvements, more natural gas generation, nuclear and renewables, and energy efficiency.

McCabe attempted to reassure FERC that there will be other ways to achieve EPA's targets beyond the four spelled out in the agency's proposed rule.

"A lot of attention has been zeroing on the four building blocks, and why they pose challenges and why EPA didn't get that quite right," McCabe said. "I think it's important not to forget that there's a range of other activities that states and utilities can engage in that will lead to reduced carbon."

But, pressed by Moeller for details, the command she had displayed in reading a prepared statement was replaced with halting, vague sentences.

"A lot of the stakeholders and people in the industry are having good discussions about this. There are other ways to improve the efficiency of the system. One that's been mentioned a number of times is transmission efficiencies and working on those areas …" she responded. "One of the significant uses of power in municipalities is water and wastewater. So efforts to be more efficient there can reduce the amount of power that's needed. So we think there are a variety of things that can be done."

Thursday's "national overview" session was the first of four scheduled technical conferences on the EPA proposal's impact on reliability and wholesale electricity markets.

FERC announced the conferences in response to a request from three Republican lawmakers, including Alaska Sen. Lisa Murkowski, chairman of the Energy and Natural Resources Committee. The Republicans said in a letter to FERC that EPA "lacks the mission and the expertise to determine what is necessary to maintain the reliability of the nation's electric grid."

Additional sessions are scheduled for Feb. 25 in Denver, March 11 in D.C. and March 31 in St. Louis (AD15-4).

The day-long technical conference included discussions on numerous aspects of EPA's carbon emission rule. Below is a summary of several of them, along with links to the witnesses' written testimony.

Downbeat Moeller Says Only 2 of 4 Building Blocks Work

Moeller on Thursday offered his harshest critique yet of EPA's proposed carbon emission rule, saying that only two of the plan's four "building blocks" are viable.

At NARUC, EPA Administrator Gina McCarthy touted the Obama administration's proposed $4 billion Clean Power State Initiative Fund, which would aid states that accelerate their compliance with the agency's carbon plan. The fund faces an uncertain future in the Republican-controlled Congress. © RTO Insider

"Wyoming exports 60% of the electricity that it generates and 85% of the wind electricity it generates. We are the home of eight of the 10 largest coal mines in the United States. So it should surprise no one that we're already in full litigation mode with the EPA," Wyoming PSC Chairman Alan Minier said at the NARUC meetings. © RTO Insider

Moeller told the FERC technical conference that building block 1's call for average heat rate improvements of 6% for coal steam electric generators is unrealistic and that states will be reluctant to adopt building block 4, which calls for improving demand-side energy efficiency to 1.5% annually, because of questions about how states will enforce such goals.

Building blocks 2 and 3 — dispatching natural gas combined-cycle units to up to a 70% capacity factor, and use of more zero- and low-emitting power sources — are also fraught with challenges, Moeller said.

"In the Midwest there's already a lot of wind and a lot of transmission access. Can there be a lot more? Well, yeah, but basically the Midwest has got to get through to building block 2," he told reporters during a break in the hearing.

"To go from what is a 24 to 28% capacity factor … now to something approaching 70 [%] — I don't see how the math lines up for peak demand for pipeline capacity in an area of the country that gets very, very cold. Is it doable? I hope so. But you go back to the fundamental problem I've been raising."

That problem: finding new ways to fund pipeline expansions. While previous expansions have been backed by long-term contracts with local distribution companies, "the new customer base is power plants and the day-two market and they're not likely to sign long-term firm contracts," Moeller said. "So how do we get the financing for these new pipes?"

At the NARUC meetings, regulators from Wisconsin, Wyoming and Texas expressed

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EPA to Stakeholders at FERC, NARUC: We're Listening

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similar concerns, with Wyoming Public Service Commission Chairman Alan Minier saying that none of the four methods would work for his state.

Regulators: 'Bake in' Reliability Safety Valve to Rule

Backers of a "reliability safety valve" said it should be explicitly included in the EPA rule to ensure it survives legal challenges.

FERC Chairman Cheryl LaFleur said she was aware of about four proposals, the most detailed of which she said was that of the ISO/RTO Council (IRC).

The IRC proposed that a safety valve be allowed to address reliability issues that were not previously identified or anticipated, or that arise or become fully identified during development or implementation of state plans. It would require independent verification by reliability authorities and be limited to issues that cannot be addressed by modifying a state plan in a way that would allow it to comply under its approved compliance schedule.

"We've got to write these processes into the final rule itself" to make it harder for courts to throw it out, said Craig Glazer, PJM vice president of federal government policy, representing the IRC. "If you write the reliability safety valve into the rule itself, it's harder for a district court judge to find that you've violated the rule."

Gerry Cauley, CEO of the North American Electric Reliability Corp., agreed, saying it must be "baked in" the final rule.

Kenneth Anderson, Public Utility Commission of Texas at NARUC: "We simply can't turn the keys of ERCOT over to the Sierra Club … or other groups who don't have a clue about how electricity works." © RTO Insider

Arkansas Public Service Commission Chairman Ted Thomas said EPA ignored the impact of stranded costs in its cost estimates. He said the carbon rule may raise electric rates by as much as 25% in his state. "This impacts the middle class without making a dent in global warming." © RTO Insider

John Moore, senior attorney for the Natural Resources Defense Council's Sustainable FERC Project, said the rules for implementing the safety valve must be "fairly tight" to encourage states to first take advantage of the flexibility in the EPA rule.

With accurate reliability modeling, and proposer planning, "we think the reliability safety valve … will be needed a lot less than many say," he said.

Carbon Price Adder: Rational and Cost Effective for Some, Political Poison for Others

Several witnesses, including those representing PJM and Exelon, called for implementing the rule through a carbon-price adder that would incorporate compliance into an RTO's economic dispatch.

Kathleen Barrón, Exelon's senior vice president of federal regulatory affairs and wholesale market policy, outlined a proposal that would have EPA set a nationwide price for carbon at a level high enough to reduce emissions to meet the Clean Power Plan's goals. The plan is adopted from one suggested by Great River Energy, which serves 28 distribution cooperatives in Minnesota and Wisconsin.

States that opt-in would be considered in compliance under what Exelon calls a "Reliability Dispatch Safe Harbor." Generators in those states would include the carbon fee as a variable operating cost.

The plan would boost the competitiveness of all low-carbon generators, including renewables and Exelon's nuclear fleet, while allowing dispatch of high-emitting plants during times of high demand to ensure reliability.

States could require grid operators to return the collected carbon adders to electricity suppliers for refunds to consumers, mitigating compliance costs, Barrón said.

Exelon estimates the proposal could reduce states' compliance costs by 75%, limiting retail rate increases to 2 to 5%.

PJM Executive Vice President for Operations Mike Kormos said a carbon price would be the simplest way for the RTO to help states achieve compliance. Although it would be more complicated, PJM could administer the system even with different states adopting different prices, he said.

"Absent an explicit price, it is unclear how an RTO would be able to allocate available run hours of units to when they are needed most," Kormos said in his written testimony. "… Unit-specific environmental constraints could decrease price formation transparency as well as lead to congestion being transferred into uplift for which hedging is not possible."

Paul Cicio, president of the Industrial Energy Consumers of America, said EPA significantly underestimated the costs of compliance costs with the Clean Power Plan. "The CPP must not set a precedent for regulating greenhouse gases for industrials," he said. © RTO Insider

How would states react to such a proposal? Moeller wondered.

Maine Public Service Commissioner David Littell termed Exelon's proposal a "very good one." Maine is one of nine Northeast and Mid-Atlantic states in the Regional Greenhouse Gas Initiative, which administers a market-based cap-and-trade system.

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EPA to Stakeholders at FERC, NARUC: We're Listening

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RGGI says it has reduced carbon emissions by 40% from 2005 levels.

But the idea is a non-starter in some other regions, such as the coal state of Kentucky. Public Service Commissioner James Gardner said complying with the Clean Power Plan will be much more difficult than meeting EPA's Mercury and Air Toxics Standards (MATS) because the earlier rule didn't require legislative approval.

"The key building block is the state and the state is a political entity," said Gardner, who noted that the General Assembly has approved legislation that says the state can only include building block 1 (heat rate improvements) into its plan. "There's no way Kentucky is going to approve a carbon price."

Great River Energy Vice President Jon Brekke said stakeholders should push a market-based solution despite such opposition. "I think you can make a construct of the willing," he said.

Wisconsin Public Service Commissioner Ellen Nowak said her state's electric generators can only improve their heat rates by an average of about 2%, one-third of the 6% improvement EPA assumed in building block 1. FERC Commissioner Philip Moeller expressed similar concerns. © RTO Insider

Relying on the market means you don't have to choose winners among generation technologies in advance, he added. In contrast, EPA's building-blocks approach treats renewables better than carbon capture and sequestration and nuclear fusion, two elusive technologies that Brekke said might become viable in the future.

Carla Peterman of the California Public Utilities Commission said the cheaper cost of compliance under a market-based system will attract reluctant states. "Once you start demonstrating that there are benefits, others will join."

Littell agreed. Responding to a question from FERC Commissioner Norman Bay, Littell said more will join such a system "once we get through the litigation period" — court challenges to EPA's authority. "I'm not so pessimistic" on a carbon price, he said. "Utilities are the ultimate rational actors."

2020/2030 Deadlines

One of the most controversial aspects of EPA's proposal is its interim 2020 carbon-reduction goals.

Gerard Anderson, CEO of DTE Energy and representing the Edison Electric Institute,

Continued on page 24

PJM MRC Preview

Below is a summary of the issues scheduled to be brought to a vote at the Markets and Reliability Committee on Thursday. Each item is listed by agenda number, description and projected time of discussion, followed by a summary of the issue and links to prior coverage in ***RTO Insider***.

RTO Insider will be in Wilmington covering the discussions and votes. See next Tuesday's newsletter for a full report.

2. PJM Manuals (9:10-9:40)

Members will be asked to endorse the following manual changes:

A. Manual 02: Transmission Service Request — Changes aim to clarify and more accurately describe the Available Transfer Capability (ATC) processes and the Initial Study process for long-term firm transmission service requests. They include a grammatical cleanup; updated references to the Joint Operating Agreement; and links to the deliverability analysis in Manual14A and Manual 14B.

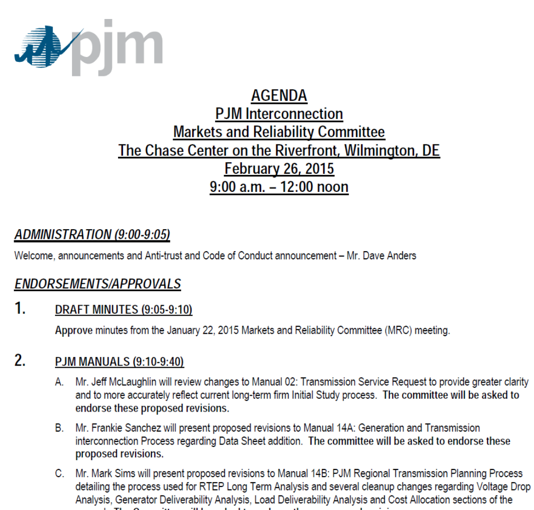
B. Manual 14A: Generation and Transmission Interconnection Process — Adds Feasibility Study data form and Impact Study data form.

C. Manual 14B: PJM Regional Transmission Planning Process — Updated to reflect existing long-term deliverability analysis procedures and cleanup language regarding voltage drop analyses, generator deliverability analyses, load deliverability analyses and cost allocation.

D. Manual 40: Training and Certifications Requirements — Revisions resulting from the annual review required by North American Electric Reliability Corp. standard PER-005-2; includes a new section on training of operations support personnel.

3. PJM/MISO Coordinated Transaction Scheduling (9:40-10:00)

Members will be asked to approve the proposed PJM-MISO Coordinated Transaction Scheduling (CTS) product, which is intended to reduce uneconomic trading across the RTOs' seam. (See *PJM, MISO Reach Agreement on New Interchange Product*.)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AGENDA
PJM Interconnection
Markets and Reliability Committee
The Chase Center on the Riverfront, Wilmington, DE
February 26, 2015
9:00 a.m. – 12:00 noon

ADMINISTRATION (9:00-9:05)

Welcome, announcements and Anti-trust and Code of Conduct announcement – Mr. Dave Anders

ENDORSEMENTS/APPROVALS

1. DRAFT MINUTES (9:05-9:10)

Approve minutes from the January 22, 2015 Markets and Reliability Committee (MRC) meeting.

2. PJM MANUALS (9:10-9:40)

A. Mr. Jeff McLaughlin will review changes to Manual 02: Transmission Service Request to provide greater clarity and to more accurately reflect current long-term firm Initial Study process. **The committee will be asked to endorse these proposed revisions.**

B. Mr. Frankie Sanchez will present proposed revisions to Manual 14A: Generation and Transmission interconnection Process regarding Data Sheet addition. **The committee will be asked to endorse these proposed revisions.**

C. Mr. Mark Sims will present proposed revisions to Manual 14B: PJM Regional Transmission Planning Process detailing the process used for RTEP Long Term Analysis and several cleanup changes regarding Voltage Drop Analysis, Generator Deliverability Analysis, Load Deliverability Analysis and Cost Allocation sections of the manual. **The Committee will be asked to endorse these proposed revisions.**

EPA to Stakeholders at FERC, NARUC: We're Listening

Continued from page 23

said it was no problem getting consensus among EEI members on the need for a longer timeline for compliance. The EPA plan, he said, is the "most fundamental transformation of our bulk power stem that we have ever undertaken."

Anderson said the plan requires most states to implement 50% of their compliance by 2020 and 11 states, including Michigan, to achieve 75% of their goal by the interim deadline.

Anderson said compliance could mean shuttering of 85 coal-fired generators in MISO, including 12 DTE generators representing 40% of energy production and 30% of peak supply. "The front end of this is compressed in a way that affects reliability," he said.

Jay Morrison, vice president of regulatory affairs for the National Rural Electricity Cooperative Association, said his members are concerned about the "early cliff" of the 2020 interim goals, with some fearing they won't be able to comply with the final targets by 2030.

Morrison asked FERC to "recognize that reliability and affordability are two sides of the same coin." Policymakers will have failed, he said, if "we keep the lights on but consumers can't afford to flip the switch."

Susan Kelley, president of the American Public Power Association, agreed.

At the NARUC meetings, Energy Secretary Ernest Moniz reported on a recent Energy department study that concluded the nation's gas pipeline network needs only a "modest" increase in capacity to meet increasing electric generation demand because many pipelines are underutilized. While acknowledging the "known bottleneck" in New England, Moniz said, "It's not like we have a massive problem." FERC commissioners said later that the study underestimates the need. © RTO Insider

"Removing the 2020 cliff would be a huge help, but it doesn't solve all the problems."

Alexandra Dunn, executive director of the Environmental Council of the States, said the compressed timelines could result in less efficient, state-by-state compliance. "I've had states say 'I don't have time to work across state lines. I will have to write a plan that's just about my state.'"

The NRDC's Moore insisted "the rule doesn't have a 2020 cliff."

Industrial energy users said EPA overestimated the energy efficiency gains possible for their sector, which has long squeezed out waste because it is "energy-expensive and trade-exposed." "You're really talking about some pretty sophisticated processes to move the needle on industrial processes," said David Ciarlone of Alcoa. © RTO Insider

"We strongly disagree with the idea that resources are all facing that deadline," he said, noting EPA's requirement that states meet average emission targets between 2020 and 2029.

He said the reliability modeling NERC and some regions have done failed to fully account for new replacement generation above the minimum levels specified in the building blocks.

Interregional Transmission

Several speakers touched on the subject of interregional transmission, which could help deliver wind power to load centers that require low-carbon generation.

"Don't hold your breath on interregional transmission," said Moeller, "because Order 1000 kind of punted on that." The order requires transmission providers only to "consider" whether the needs identified in their local and regional transmission plans could be addressed most cost-effectively through joint projects with a neighboring region.

Rob Gramlich, the American Wind Energy Association's senior vice president for government and public affairs, said the commission should reconsider Order 1000's public policy provision. The order requires transmission providers only to identify transmission needs driven by public policies, and potential solutions, in their plans. NRDC's Moore agreed, saying "we've seen almost no interregional projects getting built."

RTO Insider

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