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Your Eyes and Ears on the Organized Electric Markets
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Dynegy Chief Unapologetic over MISO Auction Flap

Repeats Threat of Move to PJM

By Rich Heidorn Jr.

MILWAUKEE — Dynegy CEO Robert Flexon last week defended his company's bidding strategy in MISO's April capacity auction and said the controversy over the results signals the need for a regulatory change in Illinois.

On May 28, Public Citizen Inc. and the Illinois Attorney General asked the Federal Energy Regulatory Commission to investigate whether Dynegy illegally manipulated MISO's Planning Resource Auction, resulting in a nine-fold price increase in Zone 4. Public Citizen also alleged that MISO rejected recommendations by its staff that Zones 4 and 5 be merged due to their concerns about Dynegy's growing share of capacity in Zone 4 after the company acquired four generators in the zone from Ameren. (See *Public Citizen: Investigate Dynegy Role in MISO Auction*.)

Zone 4, comprising much of Illinois, cleared at $150/MW-day, compared with just $16.75 a year earlier. Clearing prices in the rest of MISO were less than $3.50/MW-day.

In an interview before his appearance in a panel discussion at the MISO Annual Meeting last week, Flexon said that the company had properly offered all of its generating units into the auction based on their operating costs. "Nothing was withheld," he said.

Flexon said the auction results pointed to the disconnect between Illinois, which has retail choice, and the other14 states in MISO, which operate under cost-of-service rate regulation. Southern and Central Illinois are in MISO, while the Chicago area is part of PJM, where most states have retail choice.

"If you do the math, we're getting about $50/MW-day where all of the [utilities in the] regulated states are getting about $300 to $350 per MW-day via rates," he said — the $50 an average including units that did not clear.

"You have a market where it's designed where all of the other 14 states will take all of their capacity and [price] them at zero … and then people compare our [prices] to theirs and they're actually getting 10 times what we're getting. But we're getting all the

Continued on page 7

MISO Annual Meeting 2015

PJM Stakeholders Rush to Figure out What's Changing for the BRA

By Suzanne Herel

With just seven weeks until PJM conducts its first Base Residual Auction incorporating the newly approved Capacity Performance product, stakeholders gathered last week for a peek at the comprehensive changes Manual 18 must undergo before resources begin submitting offers.

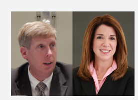
But there were more questions than clarity at the specially called Markets and Reliability Committee meeting. It was scheduled for three hours but went on for more than six, as tempers ran high and patience low.

"I'm frustrated and I'm crying," said Old Dominion Electric Cooperative's Ed Tatum during a discussion of unit-specific parameters. "This is really complicated."

At issue was whether units adhering to their parameters were safe from penalty in an emergency situation. The answer? No.

Continued on page 27

Also in this issue:



Boston Retirement Prompts Additional Promotions at PJM

PJM's promotion of Andy Ott to CEO has prompted a series of additional organizational changes and promotions effective July 8. **(p.14)**

Speakers at the PJM Grid 20/20 symposium discussed the challenges of the electric industry's historic shift to natural gas. (p.12)

MISO Annual Meeting 2015

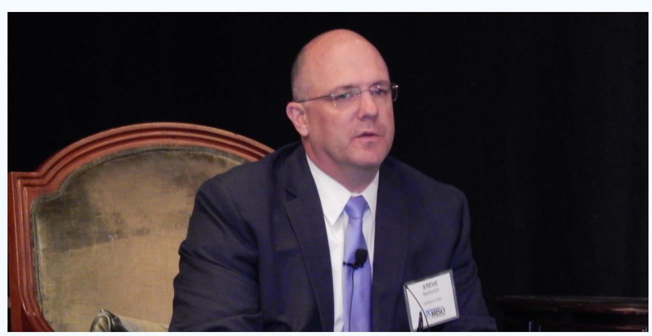
"When I arrived on the scene in MISO a little over 10 years ago, the Day 2 market design had taken a couple of detours and costs were substantially higher than the original estimates. As a result, some very good directors were voted off the island and tensions were so high between stakeholders and MISO and directors that we had a 'Leave your guns at the door' sign posted outside the meeting room," recalled MISO Chairman **Judy Walsh**, in opening the RTO's Annual Meeting last week. "We actually launched in the dark of night on March the 31st because we were scared to death of the press coverage if we had a faulty launch on April Fools' Day." © RTO Insider

Robert Ethier, ISO-NE: "It's pretty clear the markets are not going to drive new pipes." © RTO Insider

Libby Jacobs, Iowa Utility Board: "It would be blasphemy for an Iowan to say anything bad about production tax credits because we have about 10,000 jobs in our state associated with the wind industry. … It's a huge economic driver in our state." © RTO Insider

Alan James, of Macquarie Capital, whose company helped fund the Path 15 transmission line in California, said it has become more difficult for nonincumbent companies to take part in transmission development in the U.S. than it was 10 years ago. "We'd like to get more involved in transmission. Everyone would like to get more involved in transmission. But we'd *really* like to get more involved in transmission." © RTO Insider

Bill Mohl, Entergy: "We're lacking in some long-term vision about where we want to be in this industry and we need some guidance. I'm not suggesting Standard Market Design [a failed effort by the Federal Energy Regulatory Commission] because I think there are different approaches you can take. But there should be some underlying principles that you follow. … In the competitive markets, we could see a bunch of generation disappear because it's no longer financially viable." © RTO Insider



"Decarbonization" of the electric industry means "we're having to flip the way we look at the system," said **CAISO CEO Stephen Berberich**. Before, the industry planned for "a principally thermal-based system that has renewables attached to it. Now, though, we're looking at planning a renewable-based system that's supported by the thermal system." © RTO Insider

MISO Annual Meeting 2015

MISO to Reevaluate Metrics on Market Efficiency Tx Projects

By Rich Heidorn Jr.

MILWAUKEE — MISO will reevaluate the metrics used in evaluating market efficiency transmission projects because of concerns they are unduly conservative and preventing viable solutions to congestion, officials said last week.

MISO requires economic projects to clear a 1.25-1 benefit-cost ratio, based on an assumed 20-year lifespan rather than the actual life of 40 years or longer. In addition, projects are discounted based on transmission owners' cost of capital (currently about 8%) rather than a "societal" discount rate of about 3%.

"So essentially we have three layers of conservatism," Clair Moeller, executive vice president of transmission and technology, told the Board of Director's System Planning Committee meeting.

The issue came up during a briefing on MISO's North/Central market congestion planning study, which analyzed 48 proposed projects, only one of which — the Duff-Coleman 345-kV project to reduce congestion in southern Indiana — cleared the 1.25 threshold.

"It appears to me there's clearly congestion in three or four key zones," said Director Thomas Rainwater, noting the number of rejected projects clustered together on MISO's North/Central map. "Something looks to be broken when one out of 48 projects gets approved. It just strikes me by looking at it visually: Is the criteria right?"

Cost Concerns

Moeller said the difficult hurdle was the result of stakeholders' cost concerns. "When we first had the notion of cost allocation, the constituency was very interested in us being very conservative. So there are several things inside the business case parameters that we're required to follow inside the Tariff that causes … the economics of the projects to be fairly modest."

Moeller said it was time "to take a look at those business case parameters and see what the appetite is for relaxing some of those now that we've had a better track record and a better understanding of how to model these things."

"We will be doing the reevaluation because it's a good idea," he added. "Whether we end up changing the business case is an open question."

In an interview after the meeting, Moeller said the review of the metrics will likely begin this fall at the stakeholders' Planning Advisory Committee.

General Counsel Steve Kozey noted that states could authorize any transmission that would reduce their constituents' costs "as long as it doesn't hurt" MISO reliability. The question is whether load wants to pay for the upgrades, he said.

The fact that congestion remains on the system "doesn't mean that there are a lot of super obvious projects," he said.

Committee Chairman Michael Evans — who was surprised at the end of the meeting with a carrot cake to celebrate his 70th birthday — asked staff to provide a list of projects that would clear the threshold using a more realistic 40-year lifespan.

Competitive Solicitations Coming

The Duff-Coleman project, which has a benefit-cost ratio of 3.6 to 12.9 depending on assumptions used, is expected to be one of the first tests of the competitive solicitation process for nonincumbent transmission developers under the Federal Energy Regulatory Commission's Order 1000.

John Lawhorn, director of regional and economic studies, told the board there is also a "50-50" chance that staff will recommend opening a competitive window under Order 1000 for a project in MISO South. He did not identify the project.

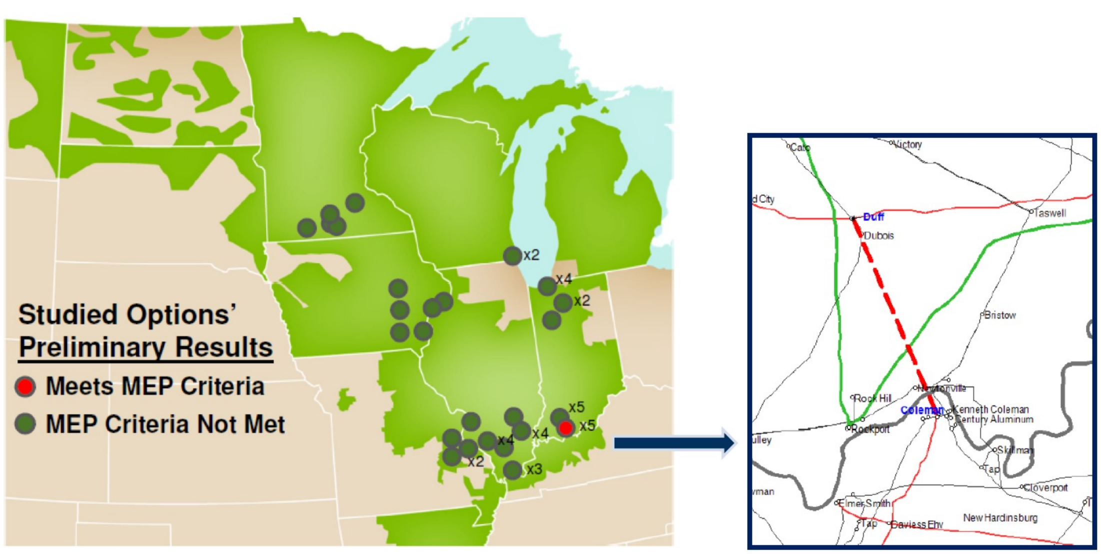
Board Chairman Judy Walsh said she feared MISO's role in evaluating competing proposals was a "slippery slope."

Rainwater and Evans also expressed misgivings. "We have a common concern about wading into this river," Evans said.

Moeller said MISO has had difficulty attracting top-tier engineering firms to conduct evaluations because they prefer to pursue more lucrative work with the developers themselves.

Joint Study with ERCOT

Moeller also said MISO and ERCOT expect to begin a joint study in about six months to evaluate the potential for HVDC facilities to address seams issues in the Houston area.



The Duff-Coleman 345-kV upgrade (right) is the only proposed market efficiency project that cleared MISO's conservative 1.25-1 benefit-cost ratio in the North/Central region. Each dot represents a proposed project; some projects were the subject of as many as five proposals. (Source: MISO)

MISO Annual Meeting 2015

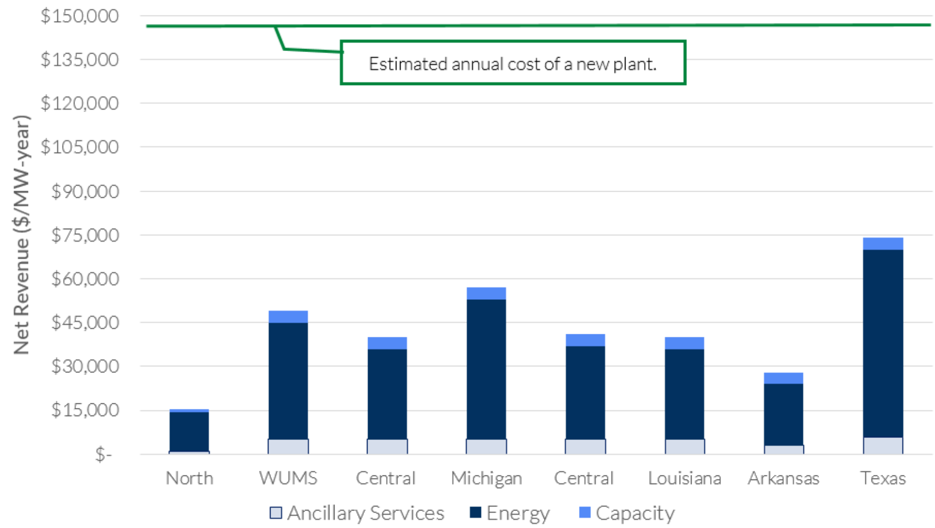
MISO Monitor Calls for Changes, Debates Capacity Rules with Board

By Chris O'Malley and Rich Heidorn Jr.

MILWAUKEE — MISO Independent Market Monitor David Patton on Wednesday called for tighter rules on wayward generators, more precise real-time pricing and a fix for Financial Transmission Rights funding shortfalls. He also engaged in a spirited debate with board members over his longstanding complaints about the RTO's voluntary capacity market.

Patton outlined the proposals, contained in the Monitor's 2014 State of the Market Report, during a presentation at the Markets Committee of the Board of Directors at MISO's Annual Meeting in Milwaukee.

Board members' repeated interjections ate up the clock and forced Patton to defer further discussion about some recommendations to a future Markets Committee meeting.



Net revenue analysis for combined-cycle plants, 2014. (Source: Potomac Economics)

Five-Minute Pricing

One of Patton's "high-priority" recommendations is to implement five-minute settlements for generators in the real-time market, something he raised three years ago.

"This is one area where we're not leading, and it has real consequences," Patton said after rattling off a list of positive metrics for MISO during 2014.

MISO dispatches the real-time market in five-minute intervals but settles based on hourly average prices. Patton said the inconsistency reduces the incentive for generators to follow dispatch signals and results in increased uplift.

"The response to our dispatch signal by a lot of our suppliers is pretty ragged and it affects us from a reliability standpoint and it affects us from an economic standpoint."

Patton noted that SPP and NYISO both use five-minute settlements. MISO won't be able to do so until it installs a new settlement system.

Todd Ramey, vice president of system operations and market services, said the system is expected to be installed next year, but it would be 2017 before members' systems would be ready to accommodate the shorter pricing intervals. "The question mark is ultimately whether the membership says 'please proceed with five-minute settlements.'"

He said the $28.6 million in increased generator revenue that the Monitor estimates would result from the change is "way less" than 1% of their overall revenues.

"From the market participant perspective, they're trying to weigh … the changes they would need to make to accommodate five-minute settlements versus the additional revenue," Ramey said.

Patton replied that a better comparison is the impact after accounting for fuel costs. "If you compare it against net revenue, it's actually way more significant," he said.

FTR Funding

Patton also offered a new recommendation for the longstanding problem of underfunding FTRs.

Shortfalls, but none of the surpluses, are allocated to FTR holders. MISO funded 96% of FTRs in 2014.

"We've created a financial instrument and created an unnecessary uncertainty about what that instrument is actually worth," Patton said. "It lowers the prices of our FTRs, so we collect less revenue when we sell the FTRs, which hurts our transmission customers."

Patton said shortfalls caused by transmission outages or derating should be allocated to those responsible for the diminished transmission capacity, as is done in NYISO. The current approach has provided incentives for some "relatively unseemly outages," including some during the polar vortex last year that generated hundreds of millions of dollars in congestion, Patton said.

"You would wonder why [outages] were being scheduled at that time of the year in the northern part of our system."

30-Minute Local Reserve Product

The Monitor also recommends that MISO introduce a 30-minute local reserve product, saying the RTO incurs high uplift costs in some areas to satisfy voltage and local reliability requirements beyond first contingencies.

The reliability requirements would be best addressed by quick-start gas turbines, which are in very short supply in MISO South, Patton said. As a result, slower-responding units are paid to be online even though they're not economic.

Patton said the new product would provide incentive to invest in quick-start units. "When [the cost is] embedded in uplift, you're not providing an investment signal," he said.

Tighten Thresholds

Another recommendation, first made by the Monitor in 2012, is to tighten thresholds for uninstructed deviations by generators. Patton said MISO is "substantially more lenient" than other RTOs in setting the bandwidth for measuring compliance, using a

Continued on page 5

MISO Annual Meeting 2015

MISO Monitor Calls for Changes, Debates Capacity Rules with Board

Continued from page 4

tolerance band of 8% and four consecutive intervals.

Patton said generators not following dispatch are nonetheless receiving a "significant amount" of ancillary services and price volatility make-whole payments.

In addition, he said, the RTO is losing as much as 400 MW due to derates during peak conditions, "a meaningful portion of the headroom that we have to operate the system. This has some reliability implications and it has economic implications.

"We think it's very important and there's almost nothing that's been accomplished in terms of moving this forward," he said. He said referrals to the Federal Energy Regulatory Commission's Office of Enforcement have improved performance somewhat.

Interface Pricing

Patton repeated his call for removing external congestion from interface prices, saying the current rules are resulting in inefficient imports and exports. Patton has previously called for a FERC technical conference to resolve MISO's differences with its neighboring RTOs. (See *Patton Asks FERC to Set Deadline on PJM-MISO Interface Pricing Dispute*.)

"We're seeing virtually no progress toward any consensus solution" with PJM, he said. "SPP is a little closer to understanding the issue than PJM."

"We think it's extremely important that MISO move forward unilaterally," he added later.

Capacity Market

Patton drew pushback from some board members when he displayed a slide showing that generators' net revenue in MISO is far below the estimated annual cost of a new combustion turbine or combined-cycle plant.

Curran © RTO Insider

"We're not very close to motivating anybody to build anything in MISO," he said. "For RTOs with functioning capacity markets, they would be meeting or exceeding the cost of new entry."

From left to right: Todd Ramey, Richard Doying and David Patton. © RTO Insider

Patton said that could be fixed by making several changes to the Planning Resource Auction for capacity, including adding seasonal capacity requirements and replacing the vertical demand curve with a sloped curve similar to that used in PJM.

Committee Chairman Michael Curran was unconvinced by Patton's analysis. "As I'm struck by this chart, I'm thinking we still manage to get things built.

"One's led to believe if you're vertically integrated you have a monopolistic power, therefore you're going to be able to exploit the poor state regulators and get really high prices … but in our market, MISO came through as the lowest cost market," he said, citing an analysis from the ISO/RTO Council.

Patton responded that MISO has a "tremendous cost advantage" because of low-cost fuel.

"All of our [independent power producers] want to get out of MISO and … that causes our vertically integrated utilities to have to build resources that are more expensive than maintaining the existing resources that we have. And it also puts all that investment risk on the backs of regulated ratepayers instead of investors.

"MISO has been enjoying a capacity surplus for a long time," he added. "When states have to build new generation … that's when you're going to see the costs appear."

Board Chairman Judy Walsh also waded into the debate, saying Patton needed to provide more data regarding other regions' costs. "This chart doesn't do it," she said.

Director Paul Feldman said the board had authorized Patton to share his proposed changes with state officials, who have been opposed to anything resembling PJM's mandatory capacity market. "So you didn't do a good [sales] job," he said, prompting laughter.

Director Paul Bonavia was a bit more conciliatory. He said if Patton could convince the stakeholders that MISO could have a more robust capacity market without increasing overall costs, "that would change the dialog a lot."

At the end of the meeting Curran thanked Patton for his independent analysis but couldn't resist a little jab.

"You're going to have a sloped demand curve on your tombstone."

"Cause somebody's going to kill me?" Patton responded, laughing nervously.

"No," Curran said. "This is the Midwest. These are nice people."

"You're going to have a sloped demand curve on your tombstone."

MISO Director Michael Curran to Market Monitor David Patton

MISO Annual Meeting 2015

MISO Straw Man: Eliminate 10 of 27 Committees

By Chris O'Malley

MISO officials on Thursday unveiled an eye-opening starting point for a redesign of the stakeholder process, with a straw man proposal to reduce by more than one-third the number of committees from the RTO's arguably Byzantine structure.

The presentation at the MISO Steering Committee, meeting in Milwaukee, was the formal kick-off to an initiative intended to improve a stakeholder process some consider to have become cumbersome. MISO recently issued a white paper that identified shortcomings.

Perhaps no better illustration of that was a flowchart presented at the meeting that shows 27 committees and subcommittees holding more than 550 meetings and generating more than 30,000 documents annually.

Eliminate 10 Committees?

The straw man proposal calls for a reduction in the number of committees to 17.

Michelle Bloodworth, MISO's executive director of external and stakeholder affairs, said the goal is to improve efficiency, not simply to reduce the number of committees.

"Certainly there are fewer boxes on the chart versus our existing structure," she said. "When we felt like an issue was discussed in two committees, or even three or four, we tried to take a stab at looking where it made sense to combine some of these issues. … Again, we are going to ask for your feedback."

She didn't have to wait long.

"[I'm] really curious to hear about the combination of the Reliability [Subcommittee] and the Market [Subcommittee]," said Bob McKee, chair of the Planning Advisory Committee and manager of regulatory relations and policy for American Transmission Co.

The straw man flowchart does not include the current Market Subcommittee. It does include a Confidential Reliability Subcommittee as part of a newly created Operations Committee.

"Because those are two charges, separate and distinct charges, that MISO has … more details on that would be needed," McKee added.

McKee was involved in the last effort to revise the stakeholder process eight years ago.

"This isn't just about an org chart. It's about execution. So whatever proposal you guys come up with, execution can't be left off the table," he said.

Industry Challenges Bolster Need for Change

MISO launched the stakeholder process review after requests from stakeholders, Edison Electric Institute CEOs and the Organization of MISO States (OMS), which represents state regulators.

Bloodworth said she has heard complaints about the stakeholder process since she joined MISO earlier this year. "When I jumped in the door I don't think I ever heard one comment from any of the stakeholders that this process was perfect, that it didn't need to have changes, that there wasn't frustration."

She said improving the stakeholder process is imperative, especially in light of the challenges facing the industry, including environmental regulations, a changing generation mix and resource adequacy concerns.

In addition to complaints of overlapping responsibilities among committees and excessive meetings, stakeholders said they were concerned that meetings were overly focused on technical concerns rather than policy.

Just 5% of MISO's 2014 agenda items addressed policy issues, according to MISO leaders involved in the redesign. That's been frustrating to some stakeholders in policy-

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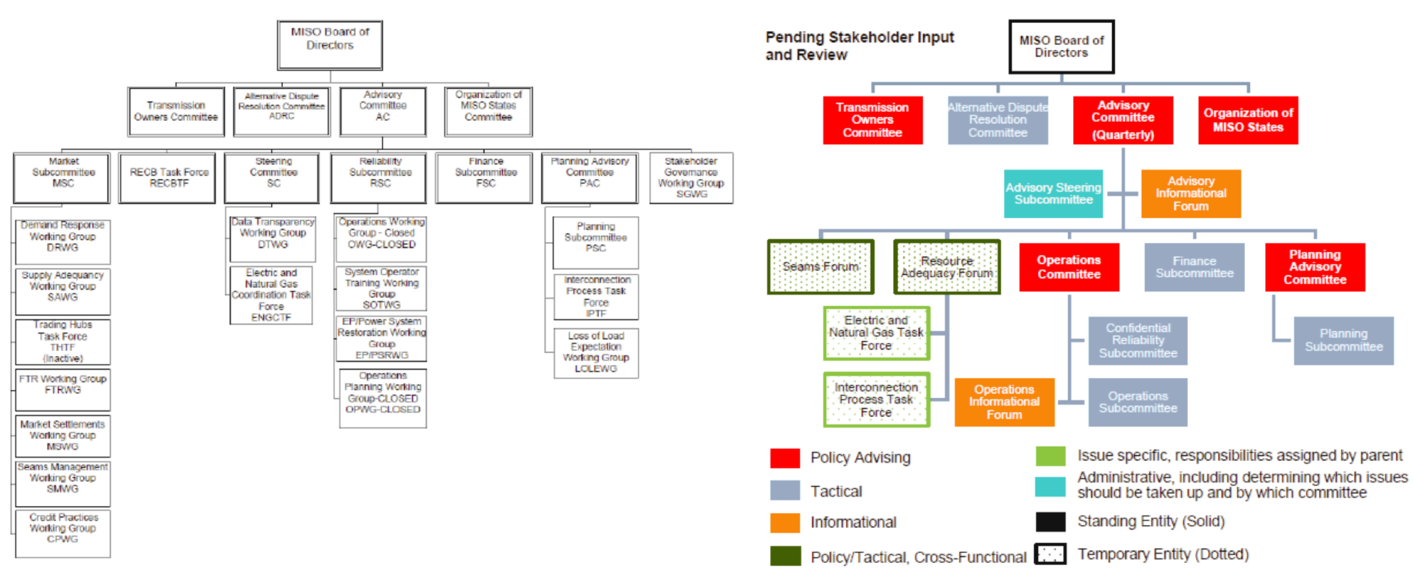


MISO current organizational chart (left) vs. straw man. (Source: MISO)

MISO Annual Meeting 2015

Dynegy Chief Unapologetic over MISO Auction Flap

Continued from page 1

[criticism] because we only have two ways of compensation."

Flexon said the company bid its units in at "basically a marginal cost."

"We look at each unit and we look at the economics and the cash flow and we bid it in at the cost. We balance the energy market with the capacity market. So some units are cheaper to run than others. So we had some units that cleared and some units that don't. … It does us no good to offer it in at $3/MW-day like the [regulated utilities do]."

Flexon © RTO Insider

Move to PJM?

Flexon reiterated his desire to move his generation into PJM. He said the company is trying to convince Illinois officials to support a change in their regulatory construct.

"The message I've really got to take to Illinois is that Central and Southern Illinois — being a part of MISO in the deregulated state — there's no future for [merchant] generation in Central and Southern Illinois if you don't change the construct. We're going to continue to get every megawatt we can into a market that's designed with like competitors.

"I think Illinois needs to look at that and say this construct doesn't work. And that's why [Exelon's] Clinton [nuclear] plant can't survive.

"Whether you do that within the parameters of MISO; whether we make Zone 4 designed a little different; whether you reregulate or whether you try … to push the whole state into PJM — I don't know what the answer [is] there. Those are possible solutions."

MISO Response

In a question-and-answer session with MISO's Board of Directors afterward, Chairman Judy Walsh thanked Flexon for his candor. "I don't think this is a problem that we didn't know about," she said.

Brett Kruse of Calpine said the aberrant prices weren't in Zone 4 but in MISO's other regions, where prices were much lower. "It is not the correct price signal. I think most economists would probably agree with that. So given all the challenges MISO's had over the years … maybe it's time for MISO and the board to say, 'Maybe there's another way to do it,'" he said.

MISO CEO John Bear said the RTO has been talking with Illinois officials about developing "a separate mechanism for that state — which I think is a way for us to address that problem without having to do anything different across our vertically integrated states, who are quite happy with the resource requirements that we have now."

"I think that's something that we ought to try to get some traction on … pretty quickly," Bear added.

MISO Straw Man: Eliminate 10 of 27 Committees

Continued from page 6

making capacities, including state regulators.

"They really want to have the forum and the opportunity to give their expertise and their insight, and probably not as good a use of their time [is] very detailed technical discussions when they can't provide as much value to the discussion," Bloodworth said.

She said MISO's goal is to reduce the number of meetings and improve its prioritization on issues that are of most critical importance.

The redesign effort seemed a little nebulous to some, including Gary Mathis, senior director of electric policy at Madison Gas and Electric Co.

"I'm a little confused about the concern about not enough focus on the policy issues," Mathis said, asking what high-level policy issues stakeholders felt did not receive enough attention.

Bloodworth replied that on the much-discussed topic of resource adequacy, some members said "they are frustrated that we've not come up with and addressed their problems that they're having. … It's really trying to prioritize."

OMS Suggests a 'Convocation'

Iowa Utilities Board Commissioner and OMS President Libby Jacobs compared MISO to an adolescent in its development. She said it seems like the right time to step back and reassess the stakeholder process put in place several years ago.

Two weeks ago, the OMS board voted to convene a forum on improving the MISO stakeholder process. (See *Amid Tensions OMS Proposes MISO Stakeholder Forum.*)

Jacobs emphasized that OMS was not attempting to hijack the MISO effort but to work "in tandem" with the RTO.

"We certainly are very appreciative of the sense of urgency that MISO has placed on the issue of stakeholder process this year," she told the Board of Directors at their meeting earlier Thursday. "But we felt that maybe there was a step that was missing, and that was a formal convocation of the various stakeholder groups talking, maybe taking two or three representatives from each sector with a facilitated discussion — the facilitator would be a third party outside the stakeholder group — to help the stakeholders talk about priorities importance to them."

"OMS does not have all the answers; we're just happy to convene" the discussion, Jacobs added.

Feedback Sought

MISO is seeking stakeholder sector feedback. A workshop is likely in August with more formal discussion of stakeholder process proposals at the October meeting of the Advisory Committee.

MISO Annual Meeting 2015

MISO Sets Term Limits for Board

By Rich Heidorn Jr.

	MISO	ISO-NE	NYISO	PJM	SPP
Directors (excluding CEO)	8 (an additional Director will be added in 2015 to bring the number to 9)	9	9	9	6
Age Limit/Mandated Retirement	No	Not Elegible if over 70	Age 75	Age 75	No
Longest Tenure Years	10	9*	15	18	13*
Average Tenure	7.5	5.4*	7	9*	10.8*
Votes and Election Requirements	Majority of Members who cast votes	Directors	Directors	Members by sector- weighted vote (candidates must receive majority of 3 of 5 sectors)	Members
Newest Member	2015	2012*	2014	2015	2008*
Term Limits	No	No	Three 3-Year Terms	Five 3-Year Terms	No

Comparison of RTO governance rules.

*Based on public information (September/October 2014)
PJM information updated by RTO Insider.
(Sources: MISO, RTO Insider)

MILWAUKEE — MISO's Board of Directors will generally be limited to three three-year terms, while the board chairman will be allowed to hold the gavel for a maximum of five years, under rule changes approved amid much gnashing of teeth last week.

The three-term limit comes with a caveat: Directors may petition for a waiver allowing a single additional term upon the determinations by the board and the Corporate Governance & Strategic Planning Committee "that a director's continued service is necessary to retain his or her skills or expertise, to maintain geographic or other diversity of the board, or is otherwise in the best interest of" MISO.

The board rejected setting an age limit, accepting the Corporate Governance Committee's position that "directors should be evaluated on their knowledge, skills and engagement, rather than an arbitrary limitation based on age."

The five-year maximum for the chairman is up from the current two-year limit. That would allow Walsh, who was elected to a second one-year term for 2016, a longer tenure.

The board tabled action on a proposal to expand the Nominating Committee — currently three directors and two stakeholders — to add more stakeholder representatives. It will consider the expansion again in October, when they said they would have the benefit of the stakeholder governance discussions. (See related story, *MISO Straw Man: Eliminate 10 of 27 Committees*, p.6.)

The term limits vote was unanimous, although Director Mike Evans expressed misgivings, saying the board was getting sufficient turnover without the rule. "At some time in the future I'm going to say, 'Why in the blazes did we do that?'" he said.

Director Paul Feldman objected to the fourth-term waiver, saying it was inconsistent with term limits and could create a "nasty dynamic" among board members. "Everyone is replaceable," he said.

Director Thomas Rainwater said he supported the term limit, citing research suggesting directors are no longer independent after about 11 years.

But Director Mike Curran joined Evans in expressing unease, recalling a discussion with Howard Schneider, who has chaired PJM's Board of Managers since its formation as an independent panel in 1997.

"'Why are you guys doing this to yourself?'" Curran said Schneider asked him after hearing that MISO was considering limits.

"A four-[term] limit would clear the decks at PJM," joked Feldman.

Actually, PJM adopted both term and age limits in May. Directors will be ineligible for re-election once they either turn 75 or have served five terms. (See *New PJM Board Member Elected, Re-election Eligibility Changed*.)

The PJM board's action was announced at the RTO's Annual Meeting in Atlantic City, N.J., without any explanation — let alone the public debate that the MISO board engaged in before voting. Unlike MISO, PJM's board does not meet in public.

MISO's Board of Directors: CEO John Bear, Paul Bonavia, Gene Zeltmann, Mike Curran, Chair Judy Walsh, Tom Rainwater, Baljit "Bal" Dail, Paul Feldman and Mike Evans. © RTO Insider

MISO Annual Meeting 2015

Southwestern Energy: Gas Industry Paying Heed to Environmentalists

By Rich Heidorn Jr.

MILWAUKEE — Gas producers are "listening loud and clear" to environmental concerns about fracking, James Tramuto, vice president of governmental and regulatory strategies for Southwestern Energy, said at the MISO Annual Meeting last week.

Southwestern Energy, the fourth-largest natural gas producer in the U.S., has committed to becoming a net-zero user of fresh water in its operations by the end of the year. "We'll get there through conservation," Tramuto said during a panel discussion. The company currently claims to use rainwater collected in ponds and water recycled from its operations for 83% of its water use, with 17% from streams.

Southwestern is one of eight gas companies in the ONE Future Coalition, a voluntary effort whose members have pledged to reduce methane emissions from leaks or loss to 1% across the supply chain.

While gas is expected to increasingly dis-

Tramuto © RTO Insider

place coal-fired generation, and the industry has plentiful supplies, producers must address the "hot-button issues" of pollution and local moratoriums if it is to continue its growth, Tramuto said.

The Sierra Club, which won $80 million in donations from billionaire Michael Bloomberg for its "Beyond Coal" campaign — with a goal of retiring half of U.S. coal plants by 2017 — is also running a "Beyond Natural Gas" program, albeit without Bloomberg's support.

Anti-gas protests have become a regular feature at open meetings of the Federal Energy Regulatory Commission.

"I would not discount the chance that gas may become the next 'evil,'" said CAISO CEO Stephen Berberich, who also spoke on the panel.

Gas, Electric Schedules

Tramuto also commented on FERC's efforts to better align the market schedules of the gas and electric industries. In April, the commission approved a rule adopting two gas scheduling changes but declined to move the start of the gas day to 4 a.m. CT from 9 a.m. CT. (See *FERC Approves Final Rule on Gas-Electric Coordination*.)

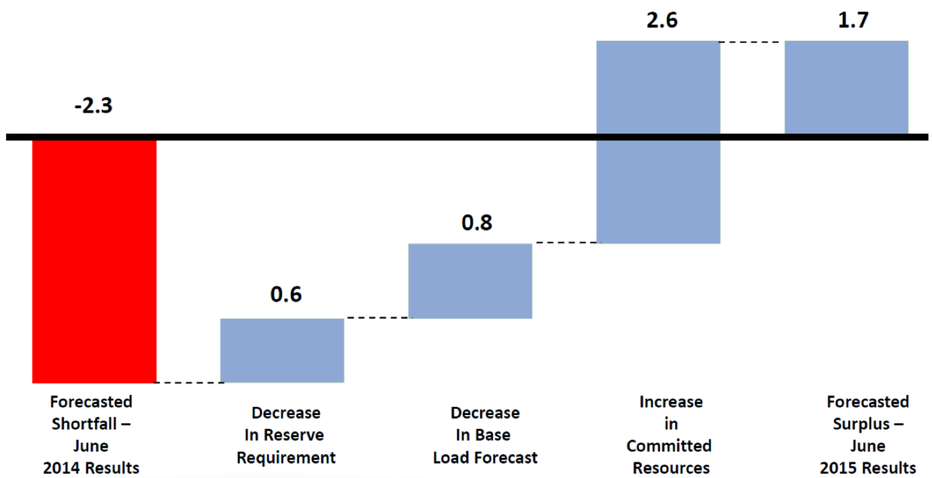
At the beginning of the scheduling discussions, Tramuto said, "people weren't talking to one another, they were talking past one another and not really understanding the other side and what their needs were versus what our capabilities are."

He added, "It's the first time I've seen in a long time that the gas community collectively — that was the producers side, the pipelines, the whole group — all spoke with one voice on not changing that 9 a.m. start time."

MISO Annual Meeting 2015

MISO Survey: No Shortfall Until 2020

By Chris O'Malley and Rich Heidorn Jr.



Regional resource adequacy for 2016 (GW) (Source: MISO)

MISO no longer faces a capacity shortfall next year, the RTO announced in releasing the results of its newest survey with the Organization of MISO States

MISO said its newest results show a minimum 1.7-GW surplus for 2016 as a result of reduced load forecasts and an increase in resources committed to serving MISO load.

The 2014 survey had projected a 2.3-GW shortfall next year.

The new survey predicts a regional surplus of 1.7 to 2.3 GW (representing reserve margins of 15.6 to 16.1%) for 2016, with sufficient zonal surpluses to offset zonal shortfalls through 2019. "Additional actions needed to ensure sufficient resources beyond 2019," MISO said.

"The big change is in the increase of committed resources. There's also a decrease in the reserve requirement as we continue to refine the calculations on exploiting the diversity of the footprint to minimize everybody's obligation in reserves," MISO Executive Vice President Clair Moeller said during a conference call with stakeholders Friday. "So going into 2016 we're feeling very confident that we're in good shape in terms of sufficient resources."

The RTO said the survey projects an average annual load growth rate of 0.8% over the next five years, equal to the 2014 survey. However, because 2015 load forecasts were below previous projections, the growth was from a lower base level.

> **"Going into 2016 we're feeling very confident that we're in good shape in terms of sufficient resources."**
>
> **Clair Moeller, MISO Executive Vice President**

"At this point in time we see a shortage of physical machines to serve the load in 2020, premised on that 0.8% load forecast distributed across the footprint," Moeller said. "So the question we're trying to answer here is how tight will capacity supplies be in those out years so people can begin to make their decisions between purchase and build and demand-side management and whatever else they need to do to ensure they bring sufficient resources to the resource pool in these out years."

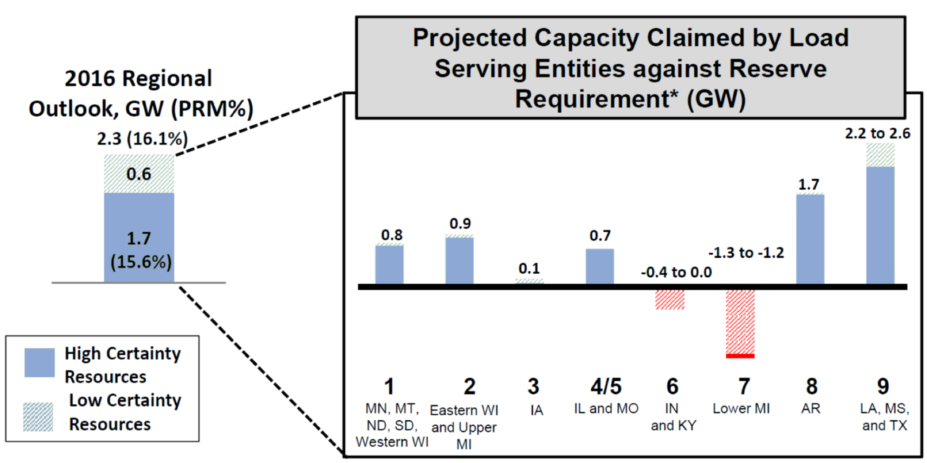
The forecasts also benefited from a 0.6-GW reduction in reserve requirements.

While the region will have sufficient capacity through 2019, according to the survey, Zone 6 (Indiana and Kentucky) and Zone 7 (Lower Michigan) will have shortfalls next year.

Generation owners, load-serving entities and regulators have been working to mitigate those problems, Moeller said. "We still have confidence they'll figure out how to do that."

By 2020, the survey forecasts regional capacity ranging from a surplus of 0.5 GW to a shortage of as much as 1.8 GW.

The RTO released its survey at its Annual Meeting in Milwaukee on Wednesday. Moeller said the survey would be explained in detail at the Supply Adequacy Working Group's July 9 meeting.



(Source: MISO)

MISO News

La. Commission Loses Challenge on Ouachita Tx Upgrade

By Tom Kleckner

The Federal Energy Regulatory Commission denied the Louisiana Public Service Commission's request to reconsider Entergy's allocation of transmission upgrade costs at its Ouachita Power Facility in northeast Louisiana, saying regulators should make their case in proceedings addressing changes to the company's system agreement.

The Louisiana regulators had requested rehearing of a 2012 order in the matter (EL11-63-001).

At issue is the allocation of $70 million in transmission upgrades necessary to qualify the Ouachita plant as a network resource for Entergy's operating companies.

Entergy Arkansas purchased the three-unit, 789-MW natural-gas fired facility from Cogentrix Energy in 2008, selling one unit to Entergy Gulf States Louisiana in 2009.

The LPSC contended Entergy Louisiana should not be liable for costs that allowed Entergy Arkansas to receive energy from the Ouachita plant, as the Arkansas utility had received approval to withdraw from Entergy's system agreement effective in 2013.

Switchyard outside Ouachita power plant.

In its January 2012 order, FERC said the LPSC's arguments were premature because the Arkansas utility had not yet left the system agreement. Entergy Arkansas formerly withdrew from the system agreement Dec. 19, 2013, when it was integrated into MISO's footprint.

In denying the LPSC's request for a rehearing, FERC said the LPSC failed to support its contention that the pre-withdrawal allocation of the plant's transmission upgrade costs could not be justified. "As Entergy has explained, until Entergy Arkansas' departure from the system agreement, the Ouachita plant provided benefits to all operating companies."

FERC said "the fact that planning of the Ouachita plant acquisition occurred after Entergy Arkansas provided notice of intent to withdraw from the system agreement does not provide a basis for treating it differently from other system resources for the purpose of allocating associated transmission costs."

The LPSC contended the 2012 order violated section 306 of the Federal Power Act, which requires a public utility to answer a complaint filed by a state regulatory commission. FERC countered by saying complainants "bear the burden to prove their allegations under both sections 206 and 306 of the FPA, irrespective of the FPA section 306 requirement."

FERC's denial said the LPSC had "misread" section 306 and said the section "provides a public utility that is the respondent to a complaint with two options: it may either (1) 'satisfy' the complaint or (2) answer the complaint in writing." FERC said the LPSC's misreading "has the effect of improperly shifting the burden of proof to a respondent" and that Entergy had fulfilled its obligations under section 306.

FERC said it saw no reason its findings conflicted with cost-causation principles and said "the appropriate forum for the Louisiana commission to raise issues regarding cost causation with respect to the post-withdrawal period was in the proceedings addressing changes to the system agreement following Entergy Arkansas' withdrawal."

FERC: MISO Generator Agreement Allows Overcharging of Interconnection Customers

MISO should eliminate the right of transmission owners to dictate how interconnection customers pay for network upgrades, the Federal Energy Regulatory Commission ruled last week.

The commission instituted a section 206 proceeding, saying MISO must either change its *pro forma* generator interconnection agreement (GIA) or explain why it shouldn't (ER14-2464-002, *et al.*).

(Source: Border Winds Power Project)

FERC said article 11.3 of MISO's *pro forma* GIA appears unjust and unreasonable because it allows transmission owners to fund upgrades in a way that forces interconnection customers to pay them for costs other than the return of and on the capital costs.

The commission suggested MISO amend the GIA and related agreements to state that transmission owners may only choose to provide the initial funding for network upgrades if the interconnection customer agrees. Otherwise, the facilities would be solely funded by the customer.

If the customer agrees to the transmission owner providing the initial funding, FERC said, MISO's rules must result in calculation of a revenue requirement that is just and reasonable, the commission said.

The ruling came in response to a request by Otter Tail Power that MISO be forced to extend the unilateral initial funding election in MISO's *pro forma* GIA to its *pro forma* facilities construction agreement. Otter Tail sought the change regarding the 150-MW Border Winds wind farm in North Dakota.

MISO's response is due in 60 days.

— Rich Heidorn Jr.

2015 PJM Grid 20/20

Who Will Build the Pipelines?

By Suzanne Herel

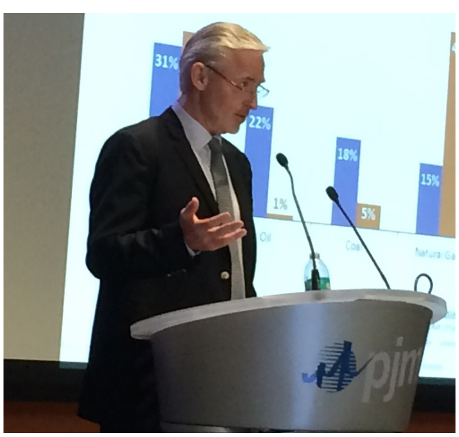
Richard Kruse, of Spectra Energy (left), and Joseph Kienle, Director of Dominion Transmission © RTO Insider

VALLEY FORGE, PA. — The electric industry's historic shift to natural gas will aid its compliance with federal regulators' pending carbon emission rules and provide a boon for gas producers. But the shift won't be accomplished, speakers said at the PJM Grid 20/20 symposium last week, without an answer to a difficult question: Who will bear the cost of building new pipelines to relieve constraints, and how will they be incented to take on the expense?

Outgoing PJM CEO Terry Boston expressed confidence in the future, saying, "This is the first time in my career I can say that energy independence for the United States of America is attainable."

The gas and electric industries, he said "are connected at the hip." There's not a lot of room for error, he said, "between just-in-time and too-dang-late." ISO-NE CEO Gordon van Welie who keynoted the conference, shared the challenges faced by New England, where natural gas' share of electric production has ballooned from 15% in 2000 to 44% in 2014. The region adopted a Winter Reliability Program and Pay-for-Performance incentives to encourage upgrades and improvements to fuel reliability.

"Natural gas infrastructure has not kept pace with the tremendous growth in gas-fired generation," van Welie said. "We don't think response to Pay-for-Performance alone is going to result in investments in natural gas pipelines."



ISO-NE CEO Gordon van Welie © RTO Insider

Meanwhile, he said, "It's not that our situation is getting better — it is getting worse."

Speakers said the Federal Energy Regulatory Commission's April order moving the timely nomination cycle deadline for scheduling gas transportation to 1 p.m. CT from 11:30 a.m. CT and adding a third intraday nomination cycle should improve coordination between the two industries. (See *FERC Approves Final Rule on Gas-Electric Coordination*.)

"The idea of adding more cycles, it can't hurt," said Joseph Kienle, director of Dominion Transmission. But, he said, "At the end of the day, if I'm in a winter situation and I'm fully subscribed, it doesn't matter how many cycles you add."

Andy Ott, who will become PJM's CEO upon Boston's retirement, said operational awareness of the natural gas industry has expanded from being a winter concern. PJM in May reconvened its gas "war room" to stay abreast of issues. "This is going to become a normal course of business," he said. "It's becoming an annual, year-round phenomenon for us."

Outgoing FERC Commissioner Philip Moeller encouraged attendees to be proactive in recommending solutions to the commission and its new chairman Norman Bay. "He's got a bigger, steeper learning curve to tackle," he said. "Keep that in mind because he's the person who will lead the commission at least for the next one and a half years."

Moeller said he has been impressed so far with Bay, who he said is trying to bring the commissioners into decision-making conversations earlier. He declined to comment on Bay's lone dissent on PJM's Capacity Performance proposal, citing a "99.99% chance of rehearing that order."

"My main message to you is: Creative ideas are welcome. We need desperately to keep the momentum going on this issue," he said.

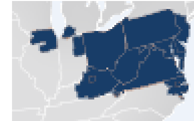
FERC is good at dealing with singular issues, he said, but, "Sometimes being able to see out a little farther is a challenge the commission has."

FERC Commissioner Philip Moeller © RTO Insider

"It's not that our situation is getting better — it's getting worse."

Gordon van Welie, ISO-NE CEO

PJM NEWS



Con Ed Rebuffed Again on NJ Cost Allocation Dispute

By Rich Heidorn Jr.

The Federal Energy Regulatory Commission again rejected Consolidated Edison of New York's request that it force PJM to recalculate the cost allocation for two transmission upgrades in northern New Jersey, raising questions about whether the company will seek alternatives to the so-called "PSEG wheel" for delivering power to New York City.

The commission last week rejected Con Ed's November 2014 challenge (EL15-18) and a rehearing request by Con Ed, the New York Public Service Commission and Linden VFT on an earlier order in the dispute (ER14-972).

PJM assigned Con Ed $629 million of the costs of a $1.2 billion transmission upgrade to address a short-circuit problem in the Public Service Electric and Gas transmission zone outside New York City. PSE&G was allocated $52 million of the cost.

Con Ed was also assigned $51 million of PSE&G's $100 million Sewaren storm-hardening project. The company says it should be assigned only $29 million for the two New Jersey projects.

PJM said Con Ed's responsibility resulted from its use of the "Con Ed-PSEG wheel," in which Public Service Enterprise Group, PSE&G's parent company, takes 1,000 MW from Con Ed at the New York border and delivers it to Con Ed load in New York City.

In April 2014, FERC rejected Con Ed's attempt to avoid paying for the short-circuit project but said it wanted more information on how PJM performed the distribution factor (DFAX) analysis that determined Con Ed's share of the cost. (See *FERC Rejects Con Ed Challenge on Tx Upgrade*.)

In last week's order, the commission accepted PJM's compliance filing, saying it was satisfied that the RTO had conducted the DFAX analysis correctly.

In filing the second complaint, Con Ed had sought a broader consideration of the cost allocation than the rate filing that prompted FERC's earlier order.

'Objectively Unreasonable'

Con Ed said PJM's Tariff requires a review of instances where its cost allocations will produce "objectively unreasonable" results. The commission, however, sided with PJM, saying that "that the provision limits the discretion in reviewing the results of the solution-based DFAX method analysis to its engineering judgment of the flows over the subject facility."

It agreed with PJM that, based on its Tariff and Order 1000, the RTO can use a "substitute proxy" only "when the solution-based DFAX method analysis cannot be performed for the facility in question and the resulting flows are not consistent with the normal expected flow results that an engineer would expect to see."

FERC said PJM was able to properly conduct the analysis.

"Because Con Edison has provided no evidence the flows were not properly measured, there was no basis upon which to disregard those results," the commission said, adding that the Tariff did not permit PJM the discretion to use a substitute proxy based on whether the resulting cost allocation appears unreasonable.

"Such an interpretation would require PJM to ignore the cost allocation procedures of its Tariff and examine every cost allocation to determine whether it is objectively unreasonable. We also find that such an interpretation would provide PJM with too much discretion and is at odds with the requirement in Order No. 1000 for determining *ex ante* cost allocation procedures, so all parties will know in advance how project costs will be allocated."

Con Ed also protested the way PJM nets transmission usage, saying it discriminates against point-to-point customers and makes incorrect assumptions about the source of the generation serving its New York load.

PJM nets a customer's positive energy flows with its negative flows, modeling the transmission zone as a whole and not bus-by-bus. PJM said that wouldn't apply to Con Ed because its energy flows in only one direction over the Bergen-Linden Corridor.

Planning Transparency

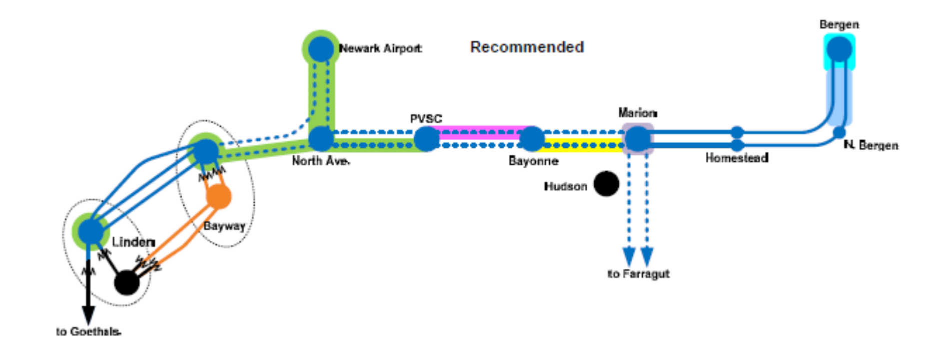
FERC also rejected the complaints of Con Ed and Linden — which owns a 315-MW merchant transmission facility that interconnects both PJM and NYISO — about the transparency of PJM's transmission planning process. FERC repeated its observation from the April 2014 order that the RTO had discussed the project during numerous Transmission Expansion Advisory Committee meetings in 2013. "Con Edison could have, but did not [raise] cost allocation issues at the TEAC meetings," FERC said.

Con Ed's contract for the wheel expires April 30, 2017, unless the company chooses to roll over the service. Con Ed spokesman Mike Clendenin said the company has not decided on whether it will appeal the ruling or renew the contract for the wheel.

"We are concerned about the unfair costs to our customers and will be reviewing our options," he said.

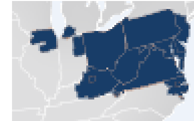
"We've got some time," he added, noting that the company would have to give notice of its intention regarding the contract in 2016.

Con Ed's peak load in New York's five boroughs and Westchester County is more than 13,000 MW.



PSEG short circuit solution (Source: PJM)

PJM NEWS



Boston Retirement Prompts Additional Promotions at PJM

From left to right: Mike Bryson, Stu Bresler, Nora Swimm and Thomas O'Brien. (Sources: RTO Insider, PJM)

PJM's promotion of Andy Ott to replace retiring CEO Terry Boston has prompted a series of additional organizational changes and promotions effective July 8.

Ott, formerly executive vice president of markets, becomes CEO-elect.

Mike Kormos, formerly executive vice president of operations, was promoted to executive vice president and COO. His deputy, Mike Bryson, formerly executive director of system operations, will become vice president of operations.

Ott's deputy Stu Bresler, formerly vice president of market operations, becomes senior vice president of market services.

"It was Andy's chance to put his [stamp] on the organization," Boston said of the changes in an interview on Monday at the Mid-Atlantic Conference of Regulatory Utilities Commissioners in Williamsburg, Va.

Boston said the changes were largely prompted by the desire "to get Stu Bresler in place to run the markets" as Ott takes on more travel. "I told [Ott], 'You think you do a lot of traveling now, you haven't seen anything yet.'"

PJM's settlements unit, formerly overseen by Bresler, is moving to the RTO's financial group to ensure more independence.

Bryson's responsibilities will increase as Kormos takes on a new direct report in Denise Foster, vice president of state and member services, who formerly reported to Ott.

In addition, Nora Swimm was promoted to senior vice president of corporate client services, from vice president of human resources and corporate client services, and Thomas O'Brien was named vice president and chief information officer, from vice president of information and technology services.

Boston said Swimm is taking on responsibilities for physical security while O'Brien's new title was to recognize the expansion of his role in recent years, in which he has served as CIO without the name and PJM has begun dealing with cyber threats.

FERC Upholds ComEd Distribution Charge on Energy Storage

By Michael Brooks

The Federal Energy Regulatory Commission last week rejected a rehearing request on its approval of Commonwealth Edison's wholesale distribution charge on an energy storage facility (ER15-3).

In its request, the Energy Storage Association contested ComEd's classification of Energy Vault — a Chicago-based company whose energy storage facility is connected to ComEd's distribution system and participates in PJM's ancillary services markets — as a load-serving entity. The association argued that because the commission has previously classified energy storage resources as generators, the charge should not apply, as ComEd has exempted generators from such charges.

"By defining an [energy storage resource] as a market seller it was PJM's and FERC's clear intention to ensure battery facilities, such as Energy Vault, would be treated similar to other market sellers, such as generators and pumped storage facilities, rather than as a market buyer or load, which ComEd proposes to do here," ESA said.

Energy Vault echoed these arguments in its protest to FERC's November 2014 approval of the charge, which costs the company $3,449 annually.

FERC disagreed, saying that energy storage could be classified as generation, transmission or distribution, depending on the circumstances. In this case, Energy Vault's battery "spends a substantial share of its operating life being charged by withdrawing energy from the distribution system," the commission said. "Generation does not."

"Notwithstanding the label applied to Energy Vault, be it deemed a wholesale customer serving load, generation, market seller or some combination, it is indisputable that Energy Vault seeks to use the ComEd distribution system to both inject into and withdraw power from its batteries," FERC said. "The Nov. 28, 2014, order was not based on any particular label or classification for Energy Vault, but upon the fact that Energy Vault is using ComEd's distribution system to withdraw energy for battery charging and therefore should contribute to its costs."

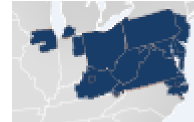
ComEd exempted generators from wholesale distribution charges in 2009. The company found that reverse flows from renewable generation potentially benefit its system by reducing congestion.

"While a storage device discharging to the distribution system should also provide beneficial counterflow, a storage device differs from generation in that it must spend a substantial amount of time charging," FERC said. "During charging, it will add to the flow and load on the distribution system just like any other load and, crucially, unlike a generator."

FERC said that while it does treat energy storage as generation for specific purposes, that does not preclude a transmission owner from recovering the costs of its system through distribution charges.

Energy Vault's storage facility, E-Vault, is a 100-kW prototype battery system that stores and provides power for the company's Solar Plugs, solar-powered EV charging stations, including one on Northerly Island in Chicago.

PJM NEWS



FERC OKs PJM Revisions on Reactive Power Payments

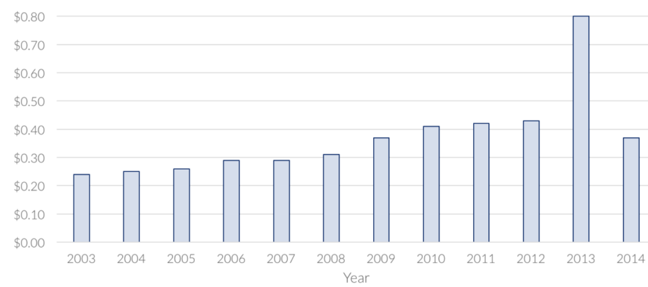
By Michael Brooks

PJM generating companies that deactivate or transfer ownership of units in their fleet will have to revise their reactive power rates or explain why they have decided not to under Tariff revisions approved by the Federal Energy Regulatory Commission last week (ER15-696).

Generators receiving compensation for reactive power would be required to make an informational filing notifying PJM and FERC of their plans at least 90 days before the effective date of changes in their fleet.

PJM submitted the revisions to Schedule 2 of its Tariff in December after FERC issued an Order to Show Cause in which the commission said it was concerned that the RTO's Tariff lacked explicit provisions preventing generators that have been retired or sold from receiving reactive power payments. (See *Impatient FERC Orders Immediate PJM Action on Reactive Power Payments to Retired Plants*.)

In its filing, PJM argued that it lacked the power to force a generator to terminate or revise its rate schedule or to stop paying it for reactive power; doing so would be a violation of companies' rights under section 205 of the Federal Power Act, it said.



Reactive power costs, 2003-2014 ($/MWh)
(Source: Monitoring Analytics)

PJM said its rule change reduces the probability that a retired generator would continue receiving reactive power payments while avoiding putting the RTO in a ratemaking role.

Some stakeholders disagreed. Public Service Enterprise Group argued that the revisions were equal to forcing generators to submit a section 205 filing, something neither PJM nor FERC can do.

FERC agreed with PJM that its proposal preserves the companies' section 205 filing rights. "We disagree with [PSEG] that the informational filing requirement is tantamount to requiring a section 205 filing. Court and commission precedent recognize that the commission retains the ability to require informational filings without exceeding its authority under section 205."

FERC ordered the RTO to further revise Schedule 2 of the Tariff to specify that the informational filings must include each resource's fuel source, wattage and MVAR capability.

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.

Markets and Reliability Committee

2. PJM Manuals (9:40-10:00)

Members will be asked to endorse the following manual changes:

A. Manual 19: Load Forecasting and Analysis — Makes change to residential measurement and verification rules approved in November. Provides a solution for the issue that some electric distribution companies (EDCs) are prohibited from sharing personally identifiable information about residential customers participating in demand response programs. EDCs may use unique ID numbers instead.

B. Manual 03: Transmission Operations — Requires a separation between emergency and load dump ratings. In the event they are the same, the emergency rating submitted by the transmission owner shall be, at a minimum, 3% lower than the load dump rating. If this change results in a normal rating that is higher than the long-term emergency (LTE) rating, the TO shall, at a minimum, make the normal rating equal to the LTE rating.

C. Manual 3A: Energy Management System Model Updates and Quality Assurance — Continues effort to streamline sections regarding model updates. Most significant change is new section on sub-transmission model submission requirements. Appendix A revised to clarify business rules and tool interaction.

3. CAPACITY PERFORMANCE (10:00-11:30)

Manual 18: PJM Capacity Market — Changes introduce new Capacity Performance products; outline transition; address resource adequacy and demand in the Reliability Pricing Model; describe supply resources in the RPM; explain demand resource requirements and RPM auction credit rates; outline the CP must-offer requirement; address intermittent and capacity storage resource sell offers; describe resource performance assessments, non-performance assessments and expected performance vs. actual performance; outline fixed resource requirement alternative; and review CP transitional Incremental Auctions. Members will be asked to endorse changes so PJM may complete its compliance filing, due July 9 to the Federal Energy Regulatory Commission. (See related story, *Stakeholders Rush to Figure out What's Changing for the BRA*, p.1.)

— Suzanne Herel

PJM NEWS

PSE&G Loses Last Effort to Overturn Artificial Island Decision

By Suzanne Herel

PJM acted properly in its solicitation of bids to fix a stability issue at the Artificial Island nuclear complex, the Federal Energy Regulatory Commission has ruled, denying a request by losing bidder Public Service Electric and Gas seeking to have the project reposted.

Among PSE&G's proposed fixes for the Artificial Island stability problem was one that would add two 500 kV lines (Artificial Island-Red Lion and New Freedom-Deans) at a cost of almost $1.1 billion. PJM planners recommended PSE&G for the project after eliminating the New Freedom-Deans line and making other changes that reduced the cost by more than three-quarters.

Source: PSE&G

While the commission found that PJM was not required to use its Order 1000 solicitation rules because the call for bids predated that measure, Commissioner Cheryl LaFleur said the case presented an opportunity to consider the order's competitive solicitation procedures more generally.

"One of Order No. 1000's key goals was to harness the benefits of competition in transmission development for customers, and it is important that, as regions implement their Order No. 1000 procedures, we do not lose sight of that goal: facilitating the identification, development and ultimately the construction of more efficient or cost-effective transmission projects that are better for customers," she wrote in a separate note included with the ruling (EL 15-40).

PSE&G had accused PJM of failing to follow its own rules by unilaterally modifying finalists' proposals and allowing LS Power – the winning bidder – to modify its proposal more than a year after the proposal window closed. (See *PSE&G: PJM Broke the Rules in Artificial Island Solicitation*.)

If PJM did not believe that any one proposal represented the most efficient or cost-effective solution, PSE&G said, it should be required to repost the solicitation.

PJM countered that such an interpretation of the rules "would result in PJM engaging in interminable, never-ending solicitations until the perfect project was proposed, with the inevitable result that PJM would have to default to assigning many projects to incumbents due to time constraints." (See *PJM: PSE&G's Remedy for Artificial Island Bid Process 'Draconian,' 'Self-Serving.'*)

In addition, it said, that type of thinking "would turn the Order No. 1000 solicitation process into a strict bidding process of the type that would govern homogenous products such as the purchase of paper clips."

PJM also noted that without the authority to combine and modify proposals, "it would be left with accepting a proposal four times as expensive as the combination it is considering."

FERC concluded, "PJM followed its commitment to evaluate Artificial Island proposals using its then-effective transmission planning process and to incorporate its new Order No. 1000 proposal window into that process 'to the extent feasible and practicable.'"

PJM planners announced April 28 that they would recommend to the Board of Managers that LS Power build a new 230-kV transmission line from New Jersey's Artificial Island to Delaware at a cost of $146 million. (See *PJM Staff Picks LS Power for Artificial Island Stability Fix; Dominion Loses Out*.) PSE&G and Transource Energy were chosen for necessary connection facilities.

PSE&G initially was picked for the job last summer, but the Board of Managers reopened the bidding following an outcry from losing bidders, New Jersey officials and environmentalists.

The Board of Managers once again will be asked to decide the issue at their meeting July 29. Prior to that, PJM planners will present their recommendation to the board's four-member Reliability Committee.

The recommendation has drawn comments and complaints from several losing bidders and the public service commissions of Maryland and Delaware, which object to the cost allocation. The Delaware Public Advocate and Old Dominion Electric Cooperative also raised objections over the allocation.

"One of Order No. 1000's key goals was to harness the benefits of competition in transmission development for customers, and it is important that, as regions implement their Order No. 1000 procedures, we do not lose sight of that goal."

Cheryl LaFleur, FERC Commissioner

NYISO NEWS

Demand Response for All Coming to New York

By William Opalka

Expanded retail-level demand response programs will take effect as soon as July 1 in targeted areas of upstate New York under measures approved by the New York Public Service Commission on Wednesday (14-E-0423).

The PSC ordered the five distribution utilities outside of New York City to offer dynamic load management to customers. Payments would be made to customers who reduce load during "called demand response events," when load is expected to reach its peak.

The programs are mandated to be available everywhere by July 2016, with implementation plans due in January. DR is already available in the Consolidated Edison service territory.

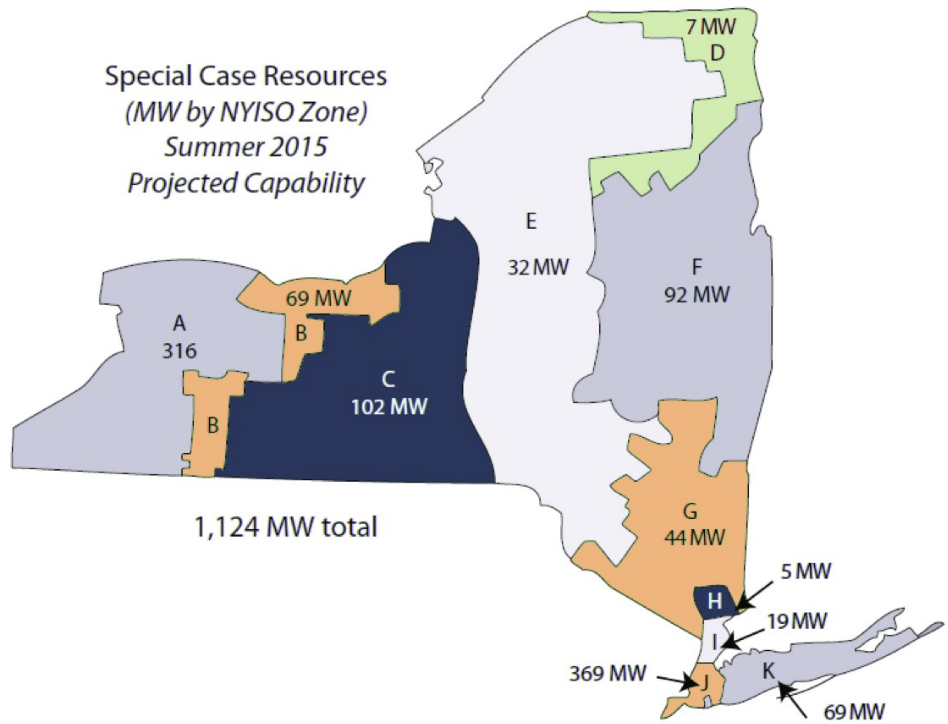
The PSC acknowledged that the "accelerated program rollout" created technical challenges that would limit availability. Priority areas were established that offered the greatest benefits at the lowest costs, based on factors including system stress and local distribution constraints, the PSC said.

For this summer, the plan is generally limited to more densely populated areas around upstate cities, such as Buffalo. New York State Electric & Gas and Rochester Gas & Electric did not designate areas but were ordered to do so by July 1.

Commissioner Diane Burman dissented in part, saying the commission was moving too fast and that she preferred the rollout a year from now, when utilities were able to offer the service system-wide.

"Are we doing this to rush it, and at the end of the day we're not going to be successful? And we've mandated something, rather than carefully analyzing it," Burman said.

Noting that the program is already expected to be modified for 2016, she said the fast track will merely cause customer confusion and waste resources.



Summer 2015 demand response capability. (Source: Power Trends 2015)

Chairman Audrey Zibelman referred to her own experience as a system operator and DR provider in the private sector as CEO of Viridity Energy. She said discussions with market players indicate they are anxious to get the program operating. She also cited the potential ill will created with customers when a product is promoted or promised, only to be rescinded at the last minute.

Dynamic load management is considered a key component of the state's Reforming the Energy Vision effort to revamp the electric industry in New York.

"Consolidated Edison had implemented and developed distribution-level DR programs in response to commission directives and was deriving substantial benefits from those programs. Based on this existing experience, it was determined that distribution-level DR programs are proven 'no regrets' cost-effective programs, for which immediate implementation was appropriate," the order says.

The plan was devised after a December 2014 order by the commission that directed upstate utilities to devise distribution level DR for this summer using Consolidated Edison as a model. Three types of programs were devised: a peak shaving program to be called on a day-ahead basis when forecasted load approaches the summer peak; the ability to call on local distribution resources to address reliability concerns in specific electrical or geographic areas; and a direct load control program allowing customers devices that can be controlled remotely by the utility.

According to the PSC, the typical residential customer supplying their own specialized thermostat would receive a one-time bonus ranging from \$30 to \$100, as well as an annual performance payment ranging from \$20 to \$50 for allowing the utility to control the thermostat during demand response events.

The other three utilities affected by the order are Central Hudson Gas & Electric, Niagara Mohawk and Orange & Rockland Utilities.

"Are we doing this to rush it, and at the end of the day we're not going to be successful?"

Diane Burman, NYPSC Commissioner

NYISO NEWS

Efficiency, Distributed Generation Dampening Power Demand for NY Grid

By William Opalka

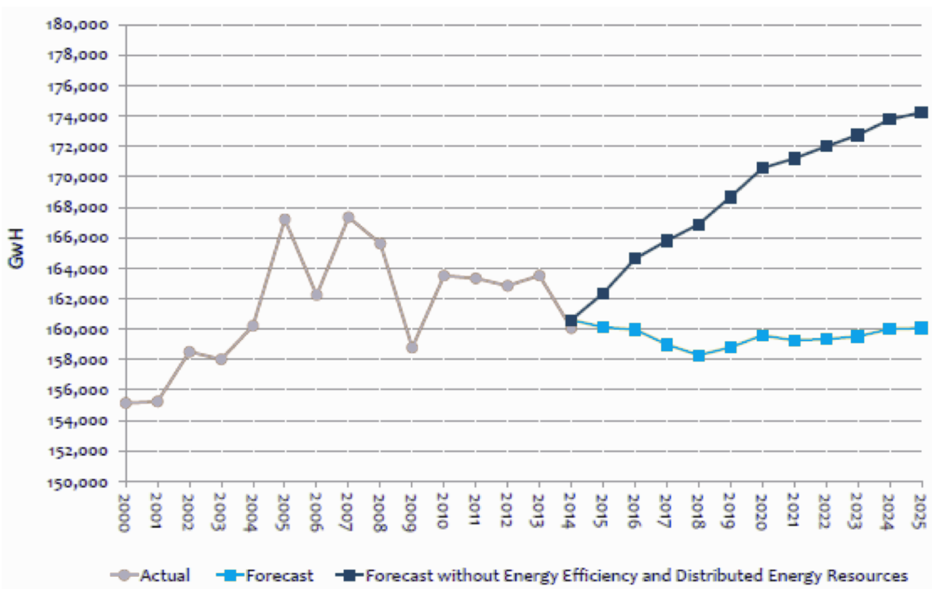
New York won't need to build too many new power plants for a while.

Demand served by the grid will remain essentially flat over the next decade, staying at about 160,000 GWh annually, according a new report by NYISO.

"Power Trends 2015" says energy efficiency and distributed energy resources will cut peak demand growth on New York's bulk power system by more than 2,700 MW in 2025 (up from less than 500 MW now), while reducing annual energy usage by more than 14,000 GWh (from about 2,000 GWh). Based on current projections, about 8% of the projected demand of 174,000 GWh will be satisfied by efficiency and DER.

"Changing energy technologies have altered the conventional assumptions about economies of scale. Development of diverse smaller scale power supplies, including solar photovoltaics (PV) that are increasingly affordable to customers, have further challenged traditional models of centralized generation," the report said.

"We can't take a 'one-size-fits-all' approach to shaping the grid of the future. We need to bolster the strength and stability of the centralized grid while we foster the flexibility and resilience offered by distributed energy resources," NYISO CEO Stephen G. Whitley said.



New York electricity usage, 2000-2025. (Source: NYISO)

Distributed generation — solar PV and other behind-the-meter systems — is central to the Reforming the Energy Vision proceeding before the New York Public Service Commission that will transform the state's energy landscape. (See *New York PSC Bars Utility Ownership of Distributed Energy Resources*.)

The report said that since the New York wholesale market started more than 15 years ago, more than 11,600 MW in new generation has been added, with more than 80% of that in the Hudson Valley, New York City and Long Island.

As a result, after years of shrinking, the state's power surplus — capacity in excess of the state's reliability requirements — grew to 2,300 MW in 2015, up from 1,900 MW last year. Demand response programs continue at about 1,100 MW.

NYISO credits the creation of a new capacity zone in the Lower Hudson Valley as incenting about 1,000 MW of generation resources returning to the market. (See *New Yorkers Upset over NYISO Capacity Zone*.)

"Capacity costs in New York are expected to be approximately $400 million lower in the coming year due to the increase in supply driven by the creation of the new zone," the report said.

Natural gas price spikes during the winter of 2014 pushed average wholesale electric energy prices to $69.30/MWh last year, up from $59.13 in 2013.

NYISO NEWS

Central Hudson Gets Rate Hike, OK on REV Project

By William Opalka

New York regulators approved Central Hudson Gas & Electric's three-year rate plan in an order that also says one demonstration project the company filed in the state's program to revamp the utility industry shows promise.

The New York Public Service Commission on Wednesday approved a joint proposal by the company, PSC staff and stakeholders that will increase electric rates by $43.4 million through 2017 (14-E-0318). The company had initially proposed a one-year plan with a $40.1 million increase.

Much of the commission's discussion Wednesday focused on the state's Reforming the Energy Vision. Utilities have been ordered to file demonstration projects by July 1, but Central Hudson jump-started the process by proposing six projects in a proceeding that ran parallel to its rate case that started last July. The proceedings are on separate regulatory tracks, however. (See *Central Hudson Case Provides Early Test of NY REV*.)

'Non-Wires' DR Plan

PSC staff said a "non-wires alternative" proposed by Central Hudson and its stakeholders in a status report filed in May met the criteria to move forward. The alternative is a demand response proposal in three congested areas of the service territory. The company was given 30 days to file additional details on proposed cost recovery and incentive mechanisms.

The other five demonstration projects either lacked specificity or didn't meet the criteria needed to define a workable business plan with other private sector partners, according to the PSC. (See *New York PSC Bars Utility Ownership of Distributed Energy Resources*.)

The PSC said a net customer benefit would have to be shown for approval, including "forgoing the capital investment associated with a traditional [transmission and distribution] solution." To expedite implementation, the order defers cost recovery until Central Hudson's next rate case — no sooner than June 2018.

That prompted concerns from Commissioner Diane Burman. "Is the rate case driving the policy, or is policy's generic proceeding driving the rate case?" she asked.

Burman also complained that commission staff were driving the demonstration project approvals. "I really think that it's an inappropriate delegation of authority for me to give up the review of that," she said.

Chairman Audrey Zibelman said she understood the concern. But after "long conversations ... I know staff ended up feeling this is the right process and I'm comfortable with it," she said.

Rate Case

Distribution rates for Central Hudson have not changed since 2012. Its last rate case was approved in 2010, and the PSC's 2013 approval of its acquisition by Canadian holding company Fortis included a two-year rate freeze that expires on July 1.

The rate order calls for graduated increases over the next three years beginning July 1:

- In 2015, electric rates will increase $2.3 million, or 38 cents/month, for the average residential customer, a 0.3% increase based on the total bill.
- In 2016, rates will increase $17 million, up 3.4% or $3.86/month.
- In 2017, rates will go up $24.1 million, up 4.8% or $5.58/month.

The impact is softened over the three years by the use of $27 million in customer credits that Fortis provided during the 2013 takeover.

Other provisions include the shift from bimonthly to monthly billing and the creation of a "major storm reserve" — Central Hudson is the only New York utility without one. The fixed monthly service charge of $24 will not change. The company had sought a $5 increase.

Central Hudson is also allowed a 9% return on equity.

Con Ed Rates Fixed for Another Year

Consolidated Edison of New York and the New York Public Service Commission reached a settlement that keeps distribution rates stable through 2016.

The NYPSC on Wednesday approved a plan negotiated over the past five months between its staff, the company and various stakeholders.

In January, the company, which serves New York City and Westchester County, had filed for a two-year rate increase that originally sought an additional $368 million in 2016. The increase would have increased customers' delivery bills by 7.2%, the PSC said. Instead, electric customers will see rates frozen for a third consecutive year.

"The proposal adopted today by the commission keeps electric delivery charges for residential and small commercial customers unchanged from such charges paid in 2013 for yet another year," commission Chairman Audrey Zibelman said in a statement.

PSC staff suggested using available customer credits, similar to the way a projected rate hike in 2014 was avoided. The 2014 rate decision provided for rate increase of $47.7 million in 2015. Customers were insulated from the increase due to a bill credit in the same amount.

The adopted joint proposal addresses Con Ed's advanced metering infrastructure (AMI) proposal. The proposal includes small capital expenditures for AMI in 2016, but the commission also set up a collaborative process that would help Con Ed develop its AMI business plan. The results of the collaborative will be presented to the commission later this year.

ISO-NE NEWS

FERC Won't Investigate Offshore Wind Power Contract

By William Opalka

The Federal Energy Regulatory Commission has for the third time refused to take up a Rhode Island citizen's allegations that an offshore wind power contract is illegal (EL15-61).

FERC declined without comment to refer the contract between Deepwater Wind and National Grid to its Office of Enforcement.

Benjamin Riggs Jr. claimed the 20-year power purchase agreement violated the Federal Power Act and the Supremacy Clause of the U.S. Constitution. He sought an enforcement action against the Rhode Island Public Utilities Commission under the Public Utility Regulatory Policies Act for violating the "commercially reasonable" provisions of that law.

Simulated view of Deepwater Wind project on horizon off of Block Island, R.I. (Source: Deepwater Wind)

Deepwater is constructing a 30-MW offshore wind farm near Block Island. The company and National Grid signed a contract that cost $500 million more than the avoided costs of conventional generation over the project's life, which regulators approved in 2010. The commission had initially rejected an agreement, but the companies amended the contract after the state passed legislation to promote the wind farm as a clean energy resource and as an economic development project.

The final permit, from the U.S. Army Corps of Engineers, was issued last year and the project is now under construction. It would be the first offshore wind farm in the U.S.

Wider simulated view of Block Island. (Source: Deepwater Wind)

National Grid argued that Riggs did not have standing to bring the action before FERC under the various statutes that he cited.

Riggs had filed complaints in 2011 and 2012 with the same allegations that also failed (EL12-16, EL12-100). He tried again in April because he said a recent Supreme Court decision, which he did not name, "suggests that any possible administrative remedy should be explored before resorting to the courts."

The courts appear to be his only option.

"Our decision not to initiate an enforcement action means that Mr. Riggs may himself bring an enforcement action against the Rhode Island commission in the appropriate court," FERC wrote.

The Rhode Island Supreme Court rejected a ratepayer challenge in 2012.

FERC Accepts ISO-NE Capacity Auction Results

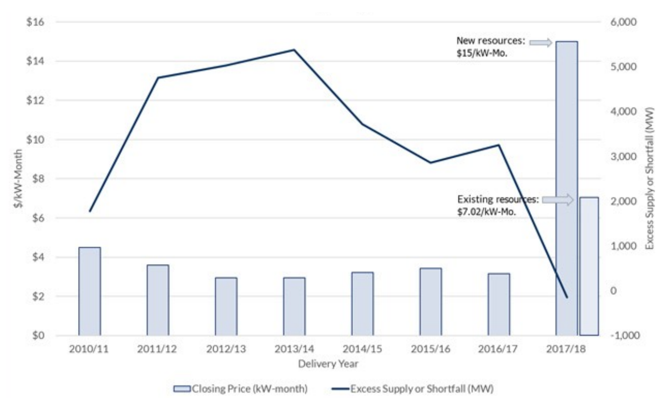
By William Opalka

The Federal Energy Regulatory Commission on Thursday accepted the results of ISO-NE's ninth Forward Capacity Auction in February, turning aside the protest of a utility workers union (ER15-1137).

The Utility Workers Union of America Local 464 had challenged the results, charging that the Brayton Point Power Station illegally withheld capacity from the auction in order to drive up prices. (See *Union: Void ISO-NE Capacity Auction Results*.) The union tried unsuccessfully to make a similar complaint stick last year with the results of FCA 8.

"We are not persuaded by Utility Workers Union's allegations that market manipulation affected FCA 9, as the record is devoid of any evidence to that effect," FERC wrote.

The 1517-MW Massachusetts generator is slated to close in 2017. Energy Capital Partners, the plant's former owner, did not offer it in the last two capacity auctions in New England, covering the 2017-2018 and 2018-2019 capacity commitment periods. Brayton Point was sold last year to Dynegy, which said it would close the plant on the previously announced schedule. (See *Dynegy Becomes New England Player Overnight*.)



ISO-NE FCA 9 results. (Source: ISO-NE)

The commission also said that Brayton Point was already prohibited from participating in FCA 9 having announced its intention to retire. The RTO's Tariff prohibits re-entry into the capacity market "at market rates in years when market-based treatment is likely to produce more revenue, thus inappropriately toggling between cost-based and market-based compensation."

The plant is located in the Southeast Massachusetts/Rhode Island zone, which failed to meet its minimum resource requirement, triggering administrative pricing. (See *Prices up One-Third in ISO-NE Capacity Auction*.)

FERC NEWS

FERC Rejects Wind Generators' Complaints on SPP Interconnection Rules

By Tom Kleckner

The Federal Energy Regulatory Commission last week denied wind generators' rehearing request on its June 2014 order concerning SPP's revisions to the RTO's generator interconnection procedures.

FERC also conditionally accepted SPP's compliance filing as a result of the June 2014 order, subject to a further compliance filing (ER14-781).

2009, 2013 Changes

SPP first revised its interconnection process in 2009, shifting it from a "first-come, first-served" approach to a "first-ready, first-served" approach. The changes streamlined the study process by including a fast-track approach for customers that met specific milestones and reduced the impact of suspended projects on other projects. They also sought to steer speculative projects into a preliminary interconnection queue and discourage them from entering the final queue by increasing deposits and requiring project readiness milestones.

In December 2013, the RTO proposed changing the way the interconnection queue priority was determined and revising milestones to execute a generator interconnection agreement (GIA). SPP also proposed requiring an interconnection customer to provide a deposit, upon execution of an interconnection agreement, of 20% of the interconnection facilities and network upgrade costs, or convert the previously provided financial milestone of $4,000/MW, whichever was greater.

FERC initially ruled the filing deficient but conditionally accepted SPP's subsequent compliance filing response in the June 2014 order.

SPP not Unclear

The American Wind Energy Association (AWEA), the Wind Coalition and E.ON asked FERC for clarification or rehearing of the order, arguing SPP did not make it clear as to what constituted harm to interconnection customers when a higher-queued customer withdrew from the queue and had its deposit refunded.

FERC rejected their assertion, saying the complainants had misconstrued the interconnection process and took SPP's statements out of context.

FERC also denied rehearing over revisions allowing SPP to withhold refunds. The commission said the "costs would not have been incurred without the higher-queued interconnection customer's request for the interconnection capacity."

FERC also rejected rehearing regarding transmission network upgrades funded by interconnection customers whose interconnection agreements are subsequently terminated by SPP. FERC said its June 2014 order found that "[i]nterconnection customers who execute a GIA and provide an initial payment for construction are undertaking a significant business risk" should they not meet their obligations.

"We find that their request would defeat the purpose of protecting lower-queued customers from increased costs," FERC said.

FERC denied E.ON's separate rehearing requests regarding SPP's establishment of queue priority at the interconnection facilities study queue stage, and payment of interest on deposits, saying they were beyond the scope of the proceeding.

FERC Proposes Streamlined Reliability Rules for TOs, RCs

The Federal Energy Regulatory Commission last week proposed revisions to several sets of reliability standards:

- In a Notice of Proposed Rulemaking (NOPR) on transmission operations (TOP) and interconnection reliability operations and coordination (IRO) standards, the commission outlined language it said would clarify standards for transmission operators and reliability coordinators, combining the eight current TOP standards into three.

  The commission said that the North American Electric Reliability Corp. had addressed concerns it raised in November 2013 about outage coordination and the treatment of system operating limits and interconnection reliability operating limits (IROLs) (RM15-16).
- A second NOPR is designed to streamline and clarify requirements of emergency preparedness and operations (EOP) and protection and control (PRC) reliability standards. It would revise the definition of a remedial action scheme (RM15-7, RM15-13, RM15-12).

Comments on the proposed rules are due 60 days after publication in the Federal Register.

FERC Goes Electronic

Participants in evidentiary hearings will no longer have to provide paper copies of all exhibits introduced as evidence, under an order approved by the Federal Energy Regulatory Commission last week (RM15-5).

The commission said its administrative law judges recently adopted a practice requiring participants to file exhibits electronically.

"Thus, it is no longer necessary or efficient to require all participants to provide the presiding judge and court reporter with paper copies of each exhibit introduced at the hearing," the commission said.

The order amends Rule 508 of the commission's Rules of Practice and Procedure, which previously required participants provide one paper copy of each exhibit to the presiding officer and two paper copies to the court reporter.

COMPANY BRIEFS

PBF Energy Buys Refinery From Exxon and Venezuela

PBF Energy, owner of refineries in Delaware, New Jersey and Ohio, is acquiring its first refinery on the Gulf Coast.

The company will pay $322 million for the 189,000-barrel-per-day Chalmette refinery near New Orleans. It purchased the refinery from Exxon Mobil and Petroleos de Venezuela S.A., the Venezuelan state-owned oil company.

PBF owns refineries in Delaware City, Del., Paulsboro, N.J., and Toledo, Ohio. It is involved in contentious negotiations with Delaware regulators over its permit to use Delaware River water for cooling operations at the Delaware City refinery.

More: *The News Journal*

SolarCity to Invest $200 Million In Solar Gardens in Minnesota

The country's largest solar panel installer, SolarCity, will spend $200 million building 100 community solar gardens in Minnesota, offering their power to apartment dwellers, a segment of the population that has been left out of the rooftop solar market. SolarCity will team up with Sunrise Energy Ventures, which will market the output.

SolarCity is taking advantage of a 2013 law that authorized community-led solar projects for Xcel Energy's 1.2 million customers. Other companies have gotten into the game in Minnesota, including SunEdison and SoCore Energy, but they have mainly focused on signing up corporate and institutional customers.

Developers are hoping to cash in on a 30% federal solar investment tax credit that expires in 2016. SolarCity's plan is to build 100 MW of solar facilities in clusters of sites. Xcel is balking at this, saying that the law prohibits any facility from being more than 1 MW.

More: *Star Tribune*

Murray Energy Recalls Laid off Coal Workers

Murray Energy last week announced it had recalled 262 workers who had been laid off in March at its Monongalia County Coal subsidiary near Blacksville, W.Va.

CEO Robert Murray said the coal industry is still in "severe economic hardship" and said most of the blame for that can be laid at the doorstep of the Obama administration's policies and a trend to switch from coal to natural gas by large generating companies.

More: *Associated Press*

FirstEnergy Moves to Keep Bruce Mansfield Plant Open

FirstEnergy is moving forward with a project to build a dewatering station for coal ash slurry produced at its Bruce Mansfield plant in Beaver County, Pa., in order to keep the massive coal-fired plant open.

The company is facing a Dec. 31, 2016, deadline to close its coal-ash slurry impoundment at the three-unit 2,714-MW plant. If the plant is to remain in operation, it needs to dewater the coal ash before it is disposed. FirstEnergy said it had been waiting for the PJM Base Residual Auction to see if there was a market for the plant's future output, but the auction was delayed until August. Bruce Mansfield failed to clear the past two auctions.

FirstEnergy said it had to make a decision on the dewatering system now in order for it to be completed ahead of the deadline.

More: *Pittsburgh Business Times*

FirstEnergy Teams with 2 Cos. To Re-open Manufacturing Plant

FirstEnergy and two nuclear waste storage companies are teaming up to re-open a Canonsburg, Pa., manufacturing facility that GE-Hitachi vacated last year.

FirstEnergy spent $1.3 million to upgrade the facility, which will serve as the base for maintenance and repair personnel serving the company's nuclear and coal-fired generating units in the region. The workers will share the plant with the company's new partners, Custom Nuclear Fabrication and Areva, who will use it to manufacture containers used to store spent nuclear fuel.

More: *Tribune-Review*

Dominion Applies for Rezoning For Controversial Tx Line

Dominion Virginia Power last week filed for a rezoning permit from James City County to construct a switching station as part of a controversial transmission line that crosses the James River. The county and other parties took Dominion to the state Supreme Court to establish that the county had permitting authority over the utility's project.

Dominion argued unsuccessfully in the courts that the State Corporation Commission, and not the county, should have authority over siting decisions. It says the line is necessary for system reliability. The county and other parties have argued that the line will destroy scenic views along the river.

The county commission will consider the application and then host a public hearing on it before issuing any final decision. A hearing is scheduled for Aug. 5.

More: *Williamsburg Yorktown Daily*

Sierra Club to Sue NJ's DEP Over PSEG's Mercer Station

The Sierra Club says it will sue the New Jersey Department of Environmental Protection for allowing PSEG Fossil's Mercer Generating Station to operate on expired permits and with an outdated cooling water system.

"For far too long, the DEP has allowed the Mercer Generating Station to pollute the river and kill more than 70 million fish and fish larvae per year," said Jeff Tittel, Sierra Club's state director. Doug O'Malley, director of Environment New Jersey, called on the company to upgrade its cooling system or shut down the plant. "If PSEG is unwilling to install modern cooling towers to stop this ecological damage, they should shut down this fossil fuel dinosaur," he said.

PSEG wouldn't comment on the pending litigation but said it has spent millions of dollars to reduce the plant's impact on aquatic life. It said it is in the process of evaluating federal Clean Water Act regulations and will submit a renewed application.

More: *NJ.com*

Atlantic City Electric Working with NJ County on Lighting Project

Atlantic City Electric is replacing 900 street lights with light-emitting diode (LED) lamps to save Camden County, N.J., about $100,000/year in lighting costs. The LEDs are expected to last about 20 years, compared to five years for the existing high-pressure sodium lamps.

The U.S Department of Housing and Urban Development provided $800,000 for the project.

More: *Collingswood Patch*

FEDERAL BRIEFS

Senate Committee Pushes Spending Bill that Slashes EPA Funding

On a party-line vote, the Senate Appropriations Committee voted 16-14 to approve a $30 billion spending bill that reduces funding for the Environmental Protection Agency and the Interior Department.

The approved funding is $400 million less than what was approved for 2015. It's also $2.2 billion less than what the Obama administration was seeking.

Sen. Barbara Mikulski (D-Md.), the ranking member on the committee, said Democrats would oppose the bill. Sen. Tom Udall (D-N.M.) said the bill takes direct aim at the Clean Air Act, the Clean Water Act and the Endangered Species Act.

Under the bill, the EPA would be banned from enforcing the carbon mandates in states that have signaled opposition to the regulation.

More: *The Hill*

NRC says Entergy Can Use Decom Fund for Fuel Storage

The Nuclear Regulatory Commission will allow Entergy to use $225 million of its $665 million decommissioning fund at the retired Vermont Yankee nuclear station to pay to store the plant's spent nuclear fuel.

Before Entergy can tap into the decommissioning fund, NRC said the company must first spend $143 million in a line of credit. NRC said it believed that Entergy has sufficient funds invested in the fund to cover decommissioning costs over the next 60 years.

More: *VTDigger.org*

Tritium Found in Groundwater At Exelon's Peach Bottom Plant

A groundwater monitoring well at Exelon Nuclear's Peach Bottom Atomic Power Station in Pennsylvania has detected radioactive tritium at levels above industry safety thresholds, but the Nuclear Regulatory Commission said the material poses no safety or environmental concern.

"It's possible that the water could eventually migrate into the plant's outlet canal, and from there it could make its way into the [Susquehanna] River," NRC spokesman Neil Sheehan said. "If so, the potential dose would be negligible. If the amount were to make its way into the Susquehanna, the dilution effect would be so great that, even if you were to take multiple water samples, it would not be detectable." Exelon is still working to determine how the tritium escaped and to devise a remediation plan.

Paul Gunter, a director of the public interest group Beyond Nuclear, said NRC's finding is troubling. "This is a one-off measurement in one well," he said. "It doesn't say how much got out. This is what they detected at that one point."

More: *York Daily Record*

NRC Considering Development Of Small Nuclear Reactors

The Nuclear Regulatory Commission is ready to start accepting design specifications for reactors in the 300-MW range, and the Energy Department is spending more than $450 million to assist in the licensing of plants using the smaller reactor.The move toward examining and encouraging the development of smaller reactors has gained the interest of several federal lawmakers, including Sen. Lisa Murkowski (R-Alaska), chair of the Senate Energy and Natural Resources Committee. "I have long supported and advocated for the development and deployment of small modular reactors," she said recently.

Most commercial reactors, including several in ongoing projects around the world and in the U.S., are greater than 1,000 MW. Proponents say the smaller reactors, which can be built off-site, would help cut greenhouse gases at a lower cost.

More: *The Hill*

Environmentalists Ask FERC to Extend Comment Period for Pipeline

The Blue Ridge Environmental Defense League filed a formal request with the Federal Energy Regulatory Commission to extend the deadline for public comment on the proposed 300-mile Mountain Valley Pipeline, which would transport natural gas from northwestern West Virginia to southern Virginia.

"The FERC has certainly not gone out of its way to ensure that the public's voice is heard," said Anne Armistead, a member of Preserve Floyd, part of the Blue Ridge Environmental Defense League. "I could not even get the e-comment feature to work on the day of the deadline when I tried to submit my comment."

The group said the June 16 deadline didn't allow the public time enough to learn about and comment on the proposed pipeline and that technical problems prohibited attempts to file comments electronically. Others complained that even when they did show up for public comment sessions, they didn't get a chance to speak.

More: *SWVAToday.com*

DOE Investigating Worker Exposure At Nevada National Security Site

The Energy Department is investigating possible radiation exposure of workers at the Nevada National Security Site.

Two incidents took place last year at the National Criticality Experiments Research Center, located at the site. Both incidents involved highly enriched uranium used in nuclear weapons. But the department's Office of Enforcement said exposure levels were "extremely small and health risks essentially zero."

More: *Las Vegas Review-Journal*

Massachusetts Town Sues FERC For Allowing Pipeline Construction

Dedham, Mass., has sued the Federal Energy Regulatory Commission for approving construction of a natural gas pipeline before the town's appeal against the project had been heard.

FERC approved the Algonquin Incremental Market project in March, allowing for the construction of a spur, or lateral line, through the towns of Dedham and West Roxbury. The town appealed the ruling, but FERC allowed construction to begin before hearing the appeal.

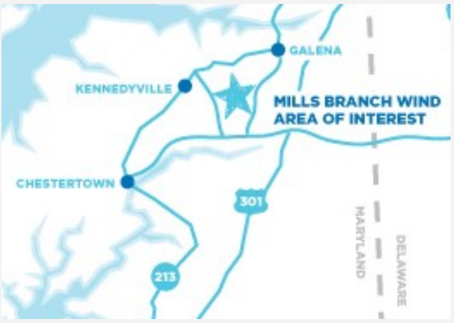
Dedham argued that FERC's decision was illegal and asked the U.S. District Court of Massachusetts to halt construction. Boston Mayor Martin J. Walsh, U.S. Rep. Stephen Lynch and several other local politicians have written FERC threatening to sue if the commission does not halt construction until it hears the appeal.

More: *Boston Globe*

STATE BRIEFS

MARYLAND

Kent County Gears up for Fight Against Wind Project



The Kent County Commission and area residents are preparing for a fight against the proposed Mills Branch Wind Project that would include up to 35 towering turbines on farms in the Eastern Shore county.

The Eastern Shore Land Conservancy, the Kent County Farm Bureau, the Queen Anne's Conservation Association and a group called Keep Kent Scenic organized a standing-room-only meeting at the Kennedyville fire house last week to brief opponents. "We are not unfriendly to green industries," said Bill Graham, an organizer of Keep Kent Scenic. "We are definitely pro-green energy. We just feel that certain energy sources — like 500-foot-tall turbines — don't comply with Kent County zoning and the comprehensive plan."

Apex Clean Energy has approached property owners and is gathering data, but it has yet to submit an application with the Public Service Commission for a Certificate of Public Convenience. Although it doesn't have the power to block the project, the opinion of the three-member County Commission, composed of the county's legislators and executive, has to be taken into consideration by the PSC when the regulatory agency reviews the project.

More: *Easton Star-Democrat*

MASSACHUSETTS

Berkshire Gas Pipeline Under Fire at DPU Hearing

Several hundred residents in Western Massachusetts and state and local officials attended a Department of Public Utilities hearing to blast a plan for local utilities to tap into a controversial gas pipeline expansion. Berkshire Gas, along with Columbia Gas and National Grid, are seeking DPU approval to purchase natural gas carried through the proposed Kinder Morgan pipeline, extending from New York state across Massachusetts to Dracut.

Berkshire Gas has said it will not accept new customers or expand natural gas delivery services to existing customers until the pipeline has been completed. The project would take three and a half years to build if Federal Energy Regulatory Commission permits are obtained.

More: *Berkshire Eagle*

NEW HAMPSHIRE

Eversource Starts 'New Hampshire First' Jobs Program

Eversource Energy has launched a "New Hampshire first" initiative to partner with local contractors and electrical workers' unions to help construct and maintain proposed energy projects throughout the state.

Eversource has three major projects that are planned to begin in 2016 that represent a more than $2 billion investment in the state's electrical grid, the company said. The most notable and controversial project is Northern Pass, a proposed $1.4 billion transmission line to deliver hydroelectric power from Quebec to New England.

Eversource anticipates the projects will create almost 2,000 jobs in the state.

More: *Union Leader*

NEW JERSEY

Controversial Pinelands Pipeline Proposal Reappears Before BPU

A proposal to run a natural gas pipeline through the Pinelands that was blocked by the Pinelands Commission last year has reappeared, this time before the Board of Public Utilities. South Jersey Gas wants to construct the pipeline to deliver Marcellus Shale gas to the B.L. England generating station, which needs to switch from coal to natural gas or shut down.

The new proposal, which moves the pipeline connection point outside the protected Pinelands and restricts the line from adding any other natural gas customers, would go to the Pinelands Commission for consideration if it is approved by the BPU. The new proposal, amended as a "private development" project, would only need staff approval.

The Pinelands Commission deadlocked 7-7 in a January 2014 vote. But since then, Gov. Chris Christie named new members to the panel, a move seen by some environmentalists as a way to smooth the way for the project.

The company has said the project was amended to address concerns by environmentalists, but activists are already crying foul. "They're trying to do an end around the Pinelands Commission," said Doug O'Malley of Environment New Jersey. "This whole process has been extraordinary. The level of Christie administration influence is astonishing."

More: *Philly.com*

NEW YORK

PSC Chair Zibelman Relinquishes Stock

Zibelman

Audrey Zibelman, chair of the Public Service Commission, is giving up her stock in Viridity Energy, the Philadelphia energy start-up she helped create and once led. Zibelman's ownership of Viridity stock and her past professional connections to energy firms doing business in the state were the subject of a story published Tuesday by *Capital New York*.

Zibelman had previously disclosed her ownership of Viridity stock in state financial disclosure forms, where she valued the shares at more than $1,000. She told *Capital New York* that the shares had no "book value" and she received neither dividends nor any compensation from Viridity, which is privately held. She relinquished ownership of the shares for no compensation, her lawyer said.

Zibelman, a former PJM executive, left Viridity in 2013 to join the PSC. Viridity makes software that monitors energy usage for companies to help them reduce their energy costs. Zibelman was not required to give up

Continued on page 25

STATE BRIEFS

Continued from page 24

her shares in Viridity under state law, but a letter to the company said she was surrendering them now "due to her current position."

More: *Times Union*

NYPSC Reports Annual Service Quality Metrics

The Public Service Commission's annual staff report found that most major electric and gas utilities in the state provided a satisfactory level of customer service in 2014.

All electric utilities met or exceeded the standards for performance on the measures of customer service with the exception of two utilities owned by National Grid. KeySpan Gas East will pay a negative revenue adjustment of $8.9 million while Niagara Mohawk will pay $2.54 million.

More: *NYPSC*

PSEG Long Island Seeks Bigger Bonus

PSEG Long Island is pressing the Long Island Power Authority for a bigger performance bonus in addition to its $45 million annual management fee.

Under contract terms with the state, PSEG is eligible for the bonus if it meets 20 different service metrics. PSEG last year met 19 of the 20. The company maintains that excess points earned in other categories should be applied to the one in which it fell short. The request would result in a bonus payment of $5.76 million — $288,417 more than the power authority believes it should pay.

The contract's performance standards include average speed to answer phone calls, timely billing and customer satisfaction, among other measures. Under the contract, the maximum incentive payment is scheduled to increase next year to $8.7 million. PSEG's management fee is also scheduled to increase to $73 million.

More: *Newsday* (subscription required)

NORTH CAROLINA

County Votes to Take Duke Coal Ash in Exchange for $19M

Chatham County officials voted 3-2 to accept a payment of nearly $19 million from Duke Energy to not oppose a landfill that will take coal ash from the utility, which is under political pressure to find a home for the estimated 150 million tons stored on 14 of its properties.

"I don't think anyone is especially happy," Commission Chairman Jim Crawford said. "This agreement gives the county a measure of control that it otherwise wouldn't have." The county says it might spend some of the proceeds on long-term insurance to protect itself from environmental problems caused by the coal ash after the landfill's eventual closure.

The agreement will give the rural county south of Chapel Hill the right to demand groundwater sampling before and after the ash is moved to the landfill in Moncure. Duke has already agreed to pay another county $12 million to store ash at a second landfill site.

More: *The News & Observer*

NC WARN Sets up Test Case on State's Solar Rules

Solar advocacy group NC WARN has built a 5.2-kW solar array on the roof of a Greensboro church and is selling the power back to the church at half the rate charged by the local utility to test the state's laws prohibiting solar energy sales to anybody but the local utility.

The group wants the Utilities Commission to find the arrangement to be a public service, allowing the church to avoid the upfront solar installation costs. The organization's executive director, Jim Warren, says his group will go to the courts if the NCUC denies its request.

Duke Energy spokesman Randy Wheeless said NC WARN's attempt to win third-party status appears as though it "wants to get into the electric utility business but is asking the commission for a free pass to avoid the rules and regulation that come with being a utility."

More: *Charlotte Business Journal*

NORTH DAKOTA

PSC Denies Xcel's Application to Charge Customers for Minn. Solar

The Public Service Commission denied Xcel Energy's application to make state customers pay for the cost of solar projects mandated in neighboring Minnesota.

Xcel's application for an advanced determination of prudence, or ADP, for 187 MW of solar from three Minnesota projects would have allowed some of the costs to be passed through to North Dakota customers. The projects were designed to meet a 2013 Minnesota renewable energy mandate.

The commission ruled that Xcel did not prove that the solar projects were cost effective and that North Dakota customers would benefit from them. "I don't believe North Dakota customers should have to pay for the result of policies in a state that they didn't have a say in passing," PSC Chairwoman Julie Fedorchak said. Xcel included the costs in its rate cases for customers in Minnesota, North Dakota, South Dakota, Wisconsin and parts of Michigan.

More: *Pioneer Press*

PENNSYLVANIA

High Court Will Hear Appeal of Ruling that Kept PPL Records Secret

The state Supreme Court has agreed to hear an appeal of an open-records ruling that kept the details secret of a $60,000 fine paid by PPL Electric Utilities.

The Public Utility Commission fined PPL after a whistleblower complained that the utility diverted work crews to restore customers during a storm outage in 2011, forcing other customers to endure a longer outage. An appeals court upheld the PUC's decision to reject a request by news media outlets to disclose details of the incident.

More: *The Morning Call*

Continued on page 26

STATE BRIEFS

Continued from page 25

RHODE ISLAND

Legislature Seeks to Rein in Increases

Legislation is moving forward that would remove a restriction preventing the Public Utilities Commission from taking into account how decoupled revenues from energy usage are affecting a utility's cost of capital.

The bill, sponsored by state Sen. Susan Sosnowski, is aimed at National Grid and would allow possible lower costs of capital to be considered in determining the profits the company is allowed under the decoupling statute. Decoupling was approved by the legislature in 2010 to encourage more aggressive energy efficiency programs. If the bill is passed, it could come into play the next time National Grid proposes a rate increase. National Grid is not opposed to the change, according to a spokesman for the company.

The bill was among a flurry of legislation that was introduced this year after National Grid imposed hefty rate increases. Most of the retaliatory measures aimed at National Grid, such as proposals to cap rate increases, failed to make headway.

More: *Providence Journal*

VERMONT

Developer Increases Lake Cleanup Commitment

The developer of a transmission line that would be buried beneath the bottom of Lake Champlain said that it would pay $284 million to clean up the lake and to promote renewable energy in the state in exchange for an agreement from the Conservation Law Foundation to drop its opposition to the project.

TDI-New England plans to spend $1.2 billion to lay a 154-mile 1,000-MW power line from the Canadian border to the town of Ludlow by burying the cable at the bottom of Lake Champlain for most of its route. (See *Lake Champlain Cable into New England Progresses*.)

Previously, TDI had agreed to contribute more than $160 million to reduce the cable impact, which would stir up sediment and have minor effects on underwater life and human uses of the lake.

More: *Boston Globe*

WISCONSIN

Board Softens Stance on Employees' Work on Climate Issues

A state board that banned its nine employees from working on climate change issues after discovering that its executive secretary served on a global warming task force years ago has relaxed its stance after receiving intense public backlash.

The Board of Commissioners of Public Lands, a three-member body, voted 2-1 for the ban after learning about the climate change work of Tia Nelson, the board's executive secretary and the daughter of Earth Day founder Gaylord Nelson.

Last week, Democratic Secretary of State Doug La Follette, who had cast the only dissenting vote on the ban, proposed relaxing the restrictions ban to prohibit staff only from advocating for global warming policy changes. "It is sensible for our staff to talk about climate change when appropriate," La Follette said. "It's just logical. We don't want our staff to be advocating. We don't want them on the stump."

More: *Associated Press*

Missouri's 'Bootheel' Region Part of Entergy Arkansas Zone, FERC Rules

By Tom Kleckner

The Federal Energy Regulatory Commission last week denied a request by Ameren that its native load in the "Bootheel" region of southeastern Missouri be considered part of MISO's Ameren Missouri transmission pricing zone rather than the Entergy Arkansas zone.

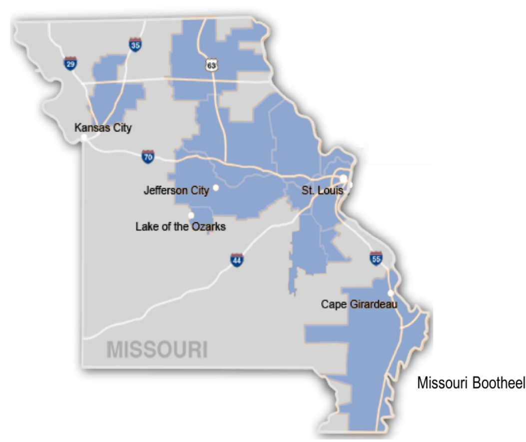
The commission rejected Ameren's request for a declaratory order (EL14-46).

FERC said while sections of a 2004 service agreement exempted Ameren Missouri from MISO charges for the bundled retail load, the agreement also requires Ameren to pay for services it does not provide itself, such as the transmission service provided by Entergy Arkansas. The commission said that "a fundamental tenet of contract interpretation is that a contract provision should be interpreted … as consistent with the contract as a whole."

The Bootheel load refers to Ameren Missouri's native load customers in the corner of the state south of St. Louis. Until 1991, that load was served by Entergy Arkansas' predecessor, Arkansas Power & Light. In 1991, APL sold its distribution system serving retail customers in Missouri to Ameren but retained its transmission facilities.

As a result, the Bootheel load is connected to Entergy Arkansas' transmission facilities in Missouri and has no direct interconnection to the Ameren Missouri grid.

Ameren Missouri, which joined MISO in 2004, served that load until December 2013 with network integration transmission service from Entergy Arkansas. A grandfathered agreement between the two companies was in effect until 2009, when a new agreement was entered.



Ameren Missouri territory (Source: Ameren)

FERC was not persuaded by Ameren's argument that denying its petition would take jurisdiction over the transmission component of its bundled retail load from the Missouri Public Service Commission. "The Missouri commission did not have the ability to set the rate for transmission service to the Bootheel load … prior to Entergy Arkansas' integration into MISO [in 2013], and Entergy Arkansas' integration into MISO does not change that."

In a statement, Ameren said, "While Ameren Missouri is disappointed with the Federal Energy Regulatory Commission's decision, we have decided to accept the decision."

Rural Utilities Allowed to Continue ROE Fight

By Chris O'Malley

Five small, rural utilities — hailing from places like Yazoo City, Miss. (population: 11,000) — have won the right to continue their fight against 24 of MISO's large transmission-owning members, whom the utilities contend are earning too much.

The Federal Energy Regulatory Commission on Thursday set the utilities' complaint for a hearing under section 206 of the Federal Power Act (EL15-45).

Commissioners said they would leave to the discretion of the Chief Administrative Law Judge whether it would be appropriate to consolidate the case with a similar complaint MISO industrial customers filed against MISO TOs that is set for an August hearing (EL14-12). (See *ROE Talks Between MISO Industrials, TOs Collapse*.)

This latest case was filed last February by Arkansas Electric Cooperative Corp., Mississippi Delta Energy Agency, the Clarksdale Public Utilities Commission, the Public Service Commission of Yazoo City and Hoosier Energy Rural Electric Cooperative.

The five argue that the TOs' base return on equity (12.38%, except American Transmission Co. with an ROE of 12.2%) should be no higher than 8.67%. The complainants cited a recent Court of Appeals ruling that found that a complainant need only demonstrate that the existing rate is unjust and unreasonable and do not have to prove the reasonableness of a suggested replacement rate.

TOs Not Persuasive

The MISO TOs argued that the consultant for the five utilities used flawed data and failed to consider other relevant capital models.

But FERC in its June 18 decision said the complainants had used appropriate data and conducted the proper cash flow analysis in making their case.

The commission also rejected the TOs' request that it dismiss the complaint because their base ROEs fall within the commission's "zone of reasonableness."

"The commission has previously rejected the contention that every ROE within the zone of reasonableness is necessarily just and reasonable, and we do so again here."

Among other MISO TOs whom the five utilities have challenged in their ROE complaint are ALLETE, Entergy, ITC Midwest and Northern States Power.

New Methodology

FERC last year changed the way it sets rates for electric utilities, switching to a two-step discounted cash-flow methodology similar to what it uses for natural gas and oil pipelines.

A number of stakeholders have argued that the current financial market allows transmission companies to use more leverage while still maintaining an investment-grade bond rating.

MISO industrials argued that the capital structures of certain MISO TOs have unreasonably high levels of common equity and should be capped at 50% common equity. Last October, FERC rejected the industrials' capital structure argument but granted a hearing on the base ROE.

Correction

Last week's *RTO Insider* mistakenly presented a table that summarized an early iteration of PJM's Capacity Performance proposal as the version approved by the Federal Energy Regulatory Commission.

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Editor & Publisher: Rich Heidorn Jr.
Marketing & Operations: Merry Eisner

RTO Insider LLC
10837 Deborah Drive
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(301) 983-0375

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PJM Stakeholders Rush to Figure out What's Changing for the BRA

Continued from page 1

"It governs what we will pay in uplift cost, and that's not what we wanted either," Mike Kormos, senior vice president for operations, told Tatum. "But it will not govern whether you are in a penalty or not. It is not what we filed. It is the order we got."

Dozens of scenarios were presented: What can be used for replacement capacity? When does the *force majeure* provision go into effect? What difference does it make if it's a transition year? How do we know why we weren't called? What happens if you choose to self-schedule? And most commonly, when and how are non-performance charges assessed?

Stakeholders have one more education session on Wednesday before the red lines to the 235-page manual are presented for endorsement to the MRC the following day. (The Members Committee, which follows the usually short MRC gatherings, has been canceled.) (See *FERC OKs PJM Capacity Performance: What You Need to Know*.)

PJM staff urged stakeholders to send their questions to capacityperformance@pjm.com to be considered in Wednesday's training.

PJM must make a compliance filing to the Federal Energy Regulatory Commission by July 9.

"We need to get this manual out there and discussed," PJM's Dave Anders said. "We do not have the luxury of time to go through multiple iterations."

The new Capacity Performance product is a response to poor generator performance during the polar vortex of January 2014.

It aims to strengthen grid reliability by rewarding overperforming participants and charging under-performers penalties.

The changes will be phased in over the 2018/19 and 2019/20 delivery years.

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- **Meeting previews: Focus on the issues that matter to you.**
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MRC/MC Preview

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

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

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

See *PJM Proposes Operating Reserve Changes to Cut Uplift*

pjm

Energy Market Uplift Senior Task Force Charter

Draft

Mission

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

PJM Proposes Operating Reserve Changes to Cut Uplift

April 30, 2013

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

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

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

- **Federal and state regulatory news briefs**

OHIO

Industry Likes Efficiency Rule, Wants Spending Cap

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

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

More: *Columbus Business First; The Columbus Dispatch*

- **Voting summaries**

Trading Limits

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

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

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Current Capacity Imports OK: Study

October 1, 2013

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

PJM to Consider Storage as Capacity

October 1, 2013

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

PJM Likely to Limit Capacity Imports

September 17, 2013

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

Installed Reserve Margin May Increase for 2014

September 17, 2013

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

RTO Insider

Your Eyes and Ears on the Organized Electric Markets