RTO Insider

Your Eyes and Ears on the Organized Electric Markets

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PJM 2016/17 Transition Auction Clears at $134/MW-day

Procures Target Capacity Below Price Cap

By Suzanne Herel and Rich Heidorn Jr.

Capacity Performance resources cleared at $134/MW-day in the transition auction for the 2016/17 delivery year, PJM announced Monday.

PJM held the auction Aug. 26-27 to obtain CP resources for 60% of the updated reliability requirement for 2016/17, procuring its target of 95,097 MW.

The clearing price was well below the price cap of $165.27 — results that Stu Bresler, senior vice president for markets, said "demonstrated the competitiveness of the auction."

But speaking at a conference in Boston, Jim Wilson, a consultant for consumer advocates, said PJM paid far more than it needed to, asserting it could have procured the CP resources for only an additional $30/MW-

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PJM's Paul Sotkiewicz (left) and consultant James Wilson debated the auction results at the EUCI conference in Massachusetts. See story, p.22

MISO Seasonal Procurement, Site Auctioning Proposals Face Opposition

States Wary on Redrawing Zones

By Rich Heidorn Jr.

ST. PAUL, Minn. — MISO officials last week outlined proposals to boost its capacity resources, winning some support for efforts to streamline the generator interconnection process and redraw its zonal boundaries to reflect constraints.

Forecast planning reserve margin (summer peak, MISO North/Central) *Source: MISO Summer Resource Assessments and MISO-OMS Survey*

But its proposal to switch from annual to seasonal procurement ran into stiff opposition from the Independent Power Producer and Power Marketers sectors, and states balked at a proposal to replace the interconnection queue with the auctioning of generator sites.

Jeff Bladen, executive director of market design, presented the resource adequacy "straw proposals" — the result of stakeholder meetings that began in February — at a meeting of the Advisory Committee. (See *MISO Stakeholders Call for Seasonal Resource Construct; Cool to Mandatory Capacity Market*.)

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DC Halts Exelon's Acquisition of Pepco

By Suzanne Herel, Michael Brooks and Ted Caddell

D.C. Public Service Commission, from left to right: Joanne Doddy Fort, Chair Betty Ann Kane and Willie Phillips. © *RTO Insider*

WASHINGTON — The D.C. Public Service Commission last week unanimously denied Exelon's proposed $6.8 billion acquisition of Pepco Holdings Inc., sparking gasps and applause in the hearing room and sending PHI shares tumbling on Wall Street.

"When this proposed merger is considered

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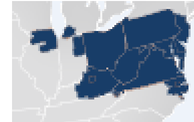

Stakeholders Struggle for Consensus on Offer Cap Before Board Filing

By Suzanne Herel

Meeting	Date	Description
MRC	9/9	Discussion
MC Webinar	9/28	Discussion
MRC/MC	10/1	Vote on proposal – both committees
MIC	10/7	Additional discussion if necessary
Board Meeting	10/15	Board decision if necessary
MRC/MC	10/22	Feedback to stakeholders if necessary

Deadlines: Effective 1/1/16, File 10/30/15

Potential schedule for offer cap change. *Source: PJM*

WILMINGTON, Del. — Stakeholders will continue to debate changing the $1,000/MWh energy offer cap at a special four-hour Markets and Reliability Committee meeting called for Sept. 9, but few who weighed in on the issue at last week's meeting were hopeful that consensus would be reached before the RTO's board makes a unilateral filing with FERC as early as October.

One proposal, presented by Marji Philips of Direct Energy, would raise the cap to $2,700/MWh for cost-based day-ahead offers and price-based real-time offers — 50% more than the highest offers reported by PJM last winter.

Independent Market Monitor Joe Bowring offered an approach that would allow cost-based offers to exceed $1,000/MWh when short-run marginal costs of a unit top that cap. Market- or price-based offers would have to be less than or equal to such cost-based offers.

"The IMM approach addresses the issue of market power when the overall market is tight," Bowring said. "That is essential — to address market power — when modifying these rules, which were implemented to address market power concerns."

Old Dominion Electric Cooperative backed a plan presented in November to the Members Committee that would allow cost-based offers up to $1,800/MWh and permit them to set LMPs.

David "Scarp" Scarpignato of Calpine said a group of suppliers also is drafting a proposal "to help get the discussion going even further" that is expected to be brought to the next Market Implementation Committee.

PJM Backs Proposal

PJM said last month that it would support the Direct Energy proposal. In March, the RTO proposed a $2,700 cap on price-based offers and removing the cap on cost-based offers in a FERC docket on price formation (AD14-14). (See *PJM Stakeholders Seek 'Miracle' to Break Offer Cap Standoff*.)

The effort to raise the cap is intended to ensure that gas-fired generators can recover costs above the cap when fuel prices spike during periods of extreme temperatures, like the polar vortex of 2014. That January, FERC granted a temporary waiver allowing make-whole payments for costs incurred above the $1,000/MWh cap. In January 2015, FERC granted the RTO another waiver that allowed it to compensate generators for offers of up to $1,800/MWh, but PJM made it through the winter without having to invoke it.

PJM's Board of Managers asked stakeholders to make another attempt to reach consensus after efforts last year fell short.

Philips told the MRC the board wouldn't wait forever for stakeholders to reach agreement. "The PJM board told stakeholders they were going to file something if we couldn't get our act together. The last time we did that it was called [Capacity Performance]. As talented as the PJM staff is, we didn't want them filing for us."

Philips said the Direct Energy proposal contained "generous" numbers in a "desperate attempt to bring generators on board."

She said the proposal would create "rational, transparent pricing. … Everyone's a winner because the market produces the right results."

Day-Ahead vs. Real-Time

Joe Wadsworth of Vitol said he supported the philosophy of the proposal but was concerned about having different rules for the day-ahead and real-time markets. "I would want to further explore: Does this present a market design issue? … Will having different offer caps have any adverse effects?"

Philips said the difference was justified. "There are very few reasons your gas prices should pop if you are chosen by day-ahead dispatch," she said. "In real-time we're willing to have no cost-cap on bids," as long as everything is reviewed by the Market Monitor, she said.

Susan Bruce, representing the PJM Industrial Customer Coalition, urged caution.

"It is a daunting prospect here to think of two months and redesigning the energy market," she said. "Our primary concern is market power being exercised during times of high demand. … That has to be addressed in order for us to get comfortable with it."

John Farber, a staff member of the Dela-

"We had this conversation last year, and summer's almost gone and winter's coming on. We were sitting at this same place last fall, and it is a serious issue."

Terry Boston, outgoing PJM CEO

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PJM NEWS

Illinois Municipals Reap Limited Relief from Capacity Rule Change

By Suzanne Herel

WILMINGTON, Del. — The Illinois Municipal Electric Agency, which had been working with PJM staff all year to find a way to continue using external capacity to fulfill its internal resource requirements, finally received the approval it had been seeking last week.

Its relief was short-lived, however.

Because the clearing price for the ComEd locational deliverability area separated from out of the RTO's footprint in the Base Residual Auction last month, the new rules approved by the Markets and Reliability Committee on Thursday only exempt IMEA until the next auction.

"IMEA will be considering how best to manage its resources and its loads over the next several months," Troy Fodor, vice president and general counsel, told *RTO Insider*.

"The [reliability assurance agreement] provisions approved by the MRC … solve a problem with the [fixed resource requirement] alternative that IMEA believes needed to be fixed," he said. "The fact that the auction prices for the ComEd LDA have now separated for the first time does affect IMEA's ability to fully benefit from the revised RAA provisions, but they are still a positive improvement.

"Moving forward, IMEA will continue to watch for opportunities to have a voice on future decisions regarding self-supply and the proper treatment of external resources."

The rule change allows load-serving entities to meet their internal capacity requirements using historic resources under certain conditions: The percentage internal resource requirement is enforced only if the LDA has been separately modeled due to certain triggers; an FRR entity is permitted to terminate its FRR alternative election prior to meeting the minimum five-year commitment period requirement under certain conditions; and first-time elections of the FRR alternative are due four months prior to a Base Residual Auction instead of the current two-month deadline. (See "Members OK Rule Change on External Capacity Transfer Rights" in *PJM Market Implementation Committee Briefs*.)

Stu Bresler, PJM senior vice president for markets, said that while ComEd did bind as a constrained LDA in the auction, "Making these changes puts FRR entities on equal footing if this happens anywhere else. It still has applicability in the near term."

FERC in January rejected IMEA's request for an extended waiver that would allow it to use generation resources outside the ComEd LDA to meet its internal resource requirement in serving its Naperville, Ill.,

IMEA members

load. (See *FERC Denies IMEA Request for Extended Waiver on Capacity Obligation*.)

That waiver had been granted in May 2014 for the 2017/18 delivery year after the ComEd LDA was modeled for the first time with a separate variable resource requirement curve.

Stakeholders Struggle for Consensus on Offer Cap Before Board Filing

Continued from page 2

ware Public Service Commission, questioned the benefit to consumers of reducing uplift.

"Uplift serves as a circuit-breaker function for consumers that is worthwhile," he said. "Bypassing that by putting all the costs in the LMP … the benefit is doubtful to consumers."

Philips noted that because uplift is not hedgeable, it must be captured in risk premiums.

She also expressed frustration with members saying they appreciated her effort but hadn't had time to consider the proposal.

"You've had over three weeks," she said. "Coming here today and saying you'll consider it — that's a 'no' vote. You haven't had a chance to think about it? We have one month, and you've had it for nearly a month."

'No Incentive to Compromise'

Gloria Godson of Pepco Holdings Inc. said the board's intention to make a unilateral filing undermined the stakeholder process.

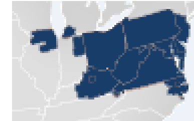
"The lack of willingness to negotiate is a sad commentary on what happens when the board steps in on issues like this," she said. "There's no incentive whatsoever for you to discuss with any other person if you like what the board plans to file. It breaks down the discussion — there is no incentive to compromise."

Outgoing PJM CEO Terry Boston, ever an outspoken supporter of consensus, urged members to hash out the issue.

"We had this conversation last year, and summer's almost gone and winter's coming on," he said. "We were sitting at this same place last fall, and it is a serious issue.

"I made this comment last year: The California energy crisis was a financial crisis first. … I think we have to get to a point where people know their costs are going to be recovered. It is not something that can just wait on the table, because of the potential of it causing a financial crisis."

PJM NEWS



Members Committee Briefs

Nominations Sought for Fall 2015 Elections

WILMINGTON, Del. — Nominations are being accepted for the fall elections that will fill a number of positions on the Members, Finance and Nominating committees.

Representatives from each of the five sectors are being sought to serve one-year terms on the Nominating Committee. The target for identifying nominees is Oct. 1, with a vote scheduled for the Oct. 22 MC meeting.

PJM General Counsel Vince Duane cautioned members that the Nominating Committee positions will involve a heavier workload and travel as the RTO is conducting searches to fill several executive vacancies.

For the remaining posts, the deadline for nominations is Nov. 1, with a vote set for the Nov. 20 MC meeting.

Four seats are expiring on the Finance Committee, one each for the End Use Customer, Generation Owner, Other Supplier and Transmission Owner sectors.

Positions also are available for five sector whips, who serve one-year terms.

Finally, a nominee from the End Use Customer sector is being sought to take on a one-year term as vice-chair.

ODEC FTR/ARR Proposal Falls Short

A last-ditch effort by Old Dominion Electric Cooperative to redesign the financial transmission rights and auction revenue rights processes fell just short of a two-thirds consensus Thursday, garnering 66.08% of the sector-weighted vote.

The proposal was backed by most members of the End Use Customer, Transmission Owner and Electric Distributor sectors but won support of only one-third of the Generation Owner and Other Supplier sectors.

The vote was so close that a single additional 'yes' vote from Generation Owners, who voted 5-10 against the motion, would have put it over the top. Three more 'yes' votes from Other Suppliers, who voted 18-36, would have done the same.

The proposal was brought to the MC after also failing to win over the Markets and Reliability Committee, where it received 59% support at the July 23 meeting. (See *ODEC Seeks Last-Ditch Vote on Deadlocked FTR/ARR Issue*.)The plan contained three elements.

One, drawn from a PJM staff proposal regarding the Stage 1A 10-year process, would have escalated current ARR results using a zonal load forecast growth rate of +1.5%. The other two elements would have changed the method of reporting the monthly payout ratio so that any negative target allocations would be included as revenue, slightly increasing the reported payout ratio. It also would have treated each FTR individually, eliminating the netting of positively and negatively valued FTR positions in a portfolio prior to determining positively valued FTR payout ratios.

The vote included a friendly amendment that would have required a report after no longer than three years of implementation on the effectiveness of the 1.5% factor.

Sector	Eligible	Attended	Did Not Vote	Yes	No	Abstain	Sector Vote In Favor	Sector Weight in Favor
Transmission Owner	13	12	0	7	3	2	70.0%	0.700
Generation Owner	79	19	3	5	10	1	33.3%	0.333
End User Customer	29	16	0	15	1	0	93.8%	0.938
Electric Distributor	46	31	4	27	0	0	100.0%	1.000
Other Supplier	354	66	4	18	36	8	33.3%	0.333
Total	**521**	**144**	**11**	**72**	**50**	**11**		**3.304 = 66.08%**

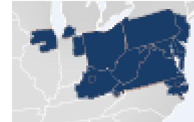
Razor-thin loss for ODEC financial transmission rights proposal. *Source: PJM*

Tariff Changes Approved Unanimously

Members unanimously approved three sets of rule changes:

- A Tariff revision instituting previously endorsed fees for proposed transmission projects. Beginning next year, PJM will charge $5,000 to study greenfield or upgrade proposals of between $20 million and $100 million and $30,000 for projects costing more than $100 million. The fees will be implemented on a two-year trial basis. (See "PJM Lowers Proposed Tx Project Study Fee" in *PJM Planning Committee Briefs*.)
- New Tariff language that aims to more accurately reflect how PJM processes requests for merchant network upgrades. The changes address definitions, queue entry, agreements and the capacity market.
- The first and second batches of revised definitions in governing documents developed by the Tariff Harmonization Senior Task Force. Also approved was an amended liability provision that clarifies the definition of PJM net assets. (See *Task Force Proposed to Resolve Inconsistencies in PJM Governing Documents*.)

— Suzanne Herel



PJM NEWS

Markets and Reliability Committee Briefs

Expense Rate Unchanged in 2016 Budget

WILMINGTON, Del. — PJM expects to spend $280 million in 2016, a $3 million increase over 2015, including $36 million on capital projects, according to a preliminary budget presented last week.

PJM composite expense rate (stated rates - refunds + AC[2] rider. *Source: PJM*

The spending plan will result in a composite expense charge of 32.9 cents/MWh, a rate that has remained consistent for the past five years.

About $28 million of the capital projects budget is dedicated to upkeep and enhancement of current applications, systems and infrastructure.

Another $5 million will be spent on new products and services, including the technology to support intraday bidding. The remaining $3 million will go toward interregional coordination, such as coordinated transaction scheduling with MISO.

The Finance Committee is set to consider the budget on Oct. 1 before it goes before the Board of Managers on Oct. 15.

Revisions Will Reveal Closed-Loop Interfaces Earlier

The committee endorsed manual revisions requiring PJM to announce the creation of closed-loop pricing interfaces five days before the close of the next financial transmission rights auction. The rules make an exception for outages of less than 10 days and those setting prices for demand response under current manual and Tariff rules.

PJM uses such interfaces to capture operator actions in LMPs rather than in uplift because its modeling software is unable to set prices for voltage problems. (See "Package Calls for Notice on Pricing Interfaces" in *PJM MIC Briefs*.)

Changes Pave Way for Transition to Markets Gateway

Members endorsed revisions to the Operating Agreement and Tariff reflecting the transition from the eMarket tool to Markets Gateway. Training on the new tool is expected to be held in the second half of this year.

Change to Manual 37 OK'd

The MRC endorsed changes to Manual 37: Reliability Coordination that modify section 2.4.2 (Change management process), replacing references to the Change Control Review Board with the Enterprise Change Management Standard. The standard ensures that changes to PJM business application systems, programs, data, systems software and hardware are authorized and applied so as not to compromise the stability and security of any information technology component.

They also update the definition of system operating limits (SOL) to make clear that PJM controls to the most conservative limits and that interconnection reliability operating limits (IROL) are an elevated level of SOL, not distinct from them. The changes also clarify what SOLs and IROLs are monitored by the RTO, as well as SOL violations reporting.

— Suzanne Herel

PJM 2016/17 Transition Auction Clears at $134/MW-day

Continued from page 1

day rather than the "windfall" that resulted from the auction.

Market Monitor Joseph Bowring, also appearing at the conference, declined to comment on the results, saying he would be issuing a comprehensive report in a few weeks.

Of the capacity that cleared, 90,851 MW represented resources committed in previous auctions that now will be converted to the new product at a higher price. The remaining 4,246 MW did not have a prior commitment, or surpassed the level of a previous commitment.

Total capacity offered into the auction was 117,753 MW.

"There wasn't anything that surprised me that much," Bresler said in a press conference after the results were announced late Monday. "The clearing price was just about at the point where we expected it to be.

"I thought the level of demand response and energy efficiency was not surprising, so really I think in just about every way it was consistent with what we expected."

The auction, part of a five-year transition period leading up to a single capacity product type for the 2020/21 delivery year, had been delayed in order to allow DR and energy efficiency resources to participate, per a FERC order. A second incremental auction, for the 2017/18 delivery year, is set for Thursday and Friday, with results expected to be posted on Sept. 9.

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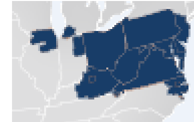
PJM NEWS



FERC Sides with PJM on Capacity Performance Transition Auctions

Bay Dissents, Laments 'Flawed Design'

By Michael Brooks

FERC last week rejected complaints from NextEra Energy and Direct Energy seeking to change the way PJM conducts its incremental capacity auctions to transition to its new Capacity Performance product (EL15-88).

The commission found that the companies failed to show how PJM's clearing methodology for the auctions was inconsistent with the RTO's Tariff and that their proposed alternative plan "relies on a complicated and untested algorithm to clear the capacity markets."

"Implementing an untested alternative proposal would require other changes to either PJM's market design or [Tariff] in order to be justly and reasonably implemented, and therefore complainants' alternative clearing methodology cannot be said to conform to the [Tariff] itself," FERC said in its order.

The transition auctions are being held to procure Capacity Performance resources for delivery years 2016/17 and 2017/18. PJM ran the first Base Residual Auction, for 2018/19, under the new product last month. (See *PJM Capacity Prices Up 37% to $165/MW-day*.) It allows capacity resources to receive higher prices in exchange for taking on more responsibilities and stiffer penalties for non-performance.

Under the rules of the transition auctions, participation is optional, and market participants may offer all or part of resources that were committed under the BRAs for those years as Capacity Performance resources. If cleared, the Capacity Performance commitment would replace the old one and participants would receive the new, higher price.

Incremental Costs

NextEra and Direct Energy argued that this methodology would result in increased costs, in violation of both PJM's Tariff and FERC's order authorizing Capacity Performance, which the companies said directed the RTO to procure capacity resources using the "least-cost solution."

	Location	Quantity	Capacity Performance Offer Price	Existing Cost	Incremental Cost
A	Rest of RTO	50 MW	$140/MW-Day	$59.37/MW-Day	$80.63/MW-Day
B	ATSI	50 MW	$160/MW-Day	$114.23/MW-Day	$45.77/MW-Day
C	MAAC	50 MW	$165/MW-Day	$119.13/MW-Day	$45.87/MW-Day

Direct Energy and NextEra Energy proposed an alternative clearing methodology for the transition auctions in which PJM would select resources based on the lowest incremental cost (the Capacity Performance price minus the original BRA price), and not simply on the lowest new price. *Source: Direct Energy and NextEra Energy (EL15-88)*

The companies said that in order to do this, PJM needs to take into account the results of the BRAs for 2016/17 and 2017/18 when selecting offers. Rather than simply selecting the lowest price, they suggested that the RTO base its selection of resources on the lowest incremental cost — the difference between the new Capacity Performance price and the price under the original BRA. (See table above.)

FERC disagreed.

The RTO's Tariff does not "require PJM to minimize costs by taking into account existing capacity revenues for the delivery year or other savings in determining the lowest price at which to clear an auction for Capacity Performance products," the commission said.

FERC also insisted that ordering PJM to revise its methodology now would delay the transition auctions and reduce the amount of time that generators have to install upgrades needed to meet Capacity Performance's more stringent requirements.

The commission issued its order the day before the first transition auction began. Results for this auction were posted Monday. (See related story, *PJM 2016/17 Transition Auction Clears at $134/MW-day*, p.1) The second auction will be Sept. 3-4, with results posted on Sept. 9.

> **"This auction will impose a considerable cost on consumers for no additional reliability benefit."**
>
> **Norman Bay, FERC Chairman**

Bay Dissents — Again

In a dissent, FERC Chairman Norman Bay agreed with the companies. He said that the transition auctions allow the RTO to avoid making payments it would otherwise make and, in turn, save consumers money.

Bay illustrated NextEra and Direct Energy's argument with an example of two hypothetical companies, A and B, that are entitled to receive $120/MW-day and $60/MW-day respectively as a result of the BRA. They both bid in the transition auction at $140/MW-day and $100/MW-day respectively. As PJM is required to accept the lowest bid, it takes company B's bid, resulting in a $40 increase in the price, as opposed to a $20 increase had company A's bid been taken.

Bay argues that because both companies are offering the same Capacity Performance product, "it simply permits consumers to be charged more in exchange for no additional benefit." He lamented that "PJM's methodology ignores the value of this opportunity."

"This auction will impose a considerable cost on consumers for no additional reliability benefit," the chairman said, warning that those costs could reach more than $1 billion. "Today's outcome demonstrates the problems inherent in a complex, flawed design."

Bay also dissented in FERC's June order approving Capacity Performance. (See *FERC OKs PJM Capacity Performance*.) He noted that vote in his dissent to last week's order.

"I would not have agreed to transitional auctions at all, but having created them, it is the commission's responsibility to ensure that they result in just and reasonable rates," he said. "Unfortunately, that has not happened here."

NYISO NEWS

NRG Plant Closures Could Impact Reliability in Western NY

By William Opalka

The New York Public Service Commission on Friday requested NYISO to perform reliability studies in western New York after NRG Energy announced it was retiring one coal plant and suspending plans to convert another to natural gas.

NRG said Aug. 25 it would retire the 380-MW Huntley Generating Units in Tonawanda, north of Buffalo, and halt plans to convert the 435-MW Dunkirk Station, southwest of Buffalo, to natural gas.

The PSC request capped a week in which NRG's announcement and protests over ratepayer subsidies to a third plant roiled the upstate New York power market, putting more than 1,100 MW of generating capacity in question.

NRG said it plans to mothball Dunkirk on Dec. 31, when a current reliability support services agreement expires, and retire Huntley on March 1, 2016.

NRG won approval from the PSC more than a year ago to convert the Dunkirk plant to natural gas at above-market rates. Dunkirk would have received out-of-market payments of $20.4 million per year from National Grid and a one-time $15 million subsidy from New York state.

Entergy, owner of the 838-MW James A. FitzPatrick nuclear plant in western New York, sued the PSC in federal court in February, claiming the subsidies interfered with FERC's jurisdiction over the wholesale power market. (See *FERC: Hearing or Settlement on Dunkirk RSSA Charges*.)

NRG said the lawsuit made the planned conversion unworkable. "Currently, NRG expects that the Entergy lawsuit will go to trial and litigation on this case could take years to resolve," spokesman David Gaier said. "Unfortunately, the Entergy lawsuit has created a tremendous amount of uncertainty for NRG in moving forward with the Dunkirk project, and at this point the project remains on hold."

NRG blamed low natural gas prices, low energy prices and low capacity prices for the Huntley closure. "Thus, because the facility is not currently economic and is not expected to be economic, NRG intends to retire the units. Should circumstances change, NRG will notify all parties to this notice," it said.

The PSC requested NYISO consider three scenarios: both Huntley and Dunkirk close; Dunkirk closes but Huntley remains open; and Huntley closes but three Dunkirk generators (Units 2, 3 and 4) remain in service after March 1. The ISO was also asked to describe transmission upgrades or alternative resources that could address any reliability problems resulting from the closures, including cost estimates and implementation schedules.

The PSC also requested that distribution company National Grid reassess its transmission needs. The company had assumed Dunkirk would continue operating, so it may need to plan transmission alternatives if the closure is permanent.

NRG's announcements could force NYISO to reconsider the conclusions of a recent study that said previous concerns about system reliability were mitigated for 2016 by the restoration of plants such as Dunkirk. (See *NYISO: Reliability Concerns Raised Last Year Resolved*.)

If the PSC determines reliability is again an issue, it could order National Grid to negotiate an RSSA with NRG to keep the plants running.

Dunkirk Station *Source: NRG Energy*

Cayuga Repowering Opposed

The owner of the Cayuga power plant near Ithaca last week filed its second revised proposal to repower the 312-MW facility from coal to natural gas (12-E-0577).

Cayuga Operating Co. had previously sought to mothball the facility in 2012, but the New York Public Service Commission determined the plant was needed to maintain system reliability. The company also has a reliability support services agreement from 2013 with New York State Electric and Gas that runs through June 2017.

Cayuga filed its first repowering proposal in February 2015 after negotiations with NYSEG failed to produce a joint agreement. NYSEG has maintained that a transmission alternative is less costly.

Under the new proposal, Cayuga would have NYSEG contribute $49.5 million toward the plant construction and another $96 million over the next 10 years.

The deal faces opposition from locals and environmentalists, as well as the authors of an economic analysis.

"Not only does a ratepayer-subsidized repowering of the Cayuga plant fail to address long-term reliability or economic development needs, it also would be antithetical to New York State and the commission's ambitious and groundbreaking effort, Reforming the Energy Vision of New York," Earthjustice told the PSC.

"If Cayuga's revised repowering proposal is approved, by the 2027 end of the 10-year repowering period, NYSEG customers will have paid more than $265 million to keep the plant operational. There also is a serious risk that ratepayers will be called upon to provide continued subsidies to the facility even after the 10-year term of the proposal ends," said the Institute for Energy Economics and Financial Analysis in its report.

Entergy has also filed protests in the Cayuga proceeding, using the same arguments it made against the Dunkirk project, saying subsidized payments interfered with FERC's jurisdiction over the wholesale market.

— William Opalka

MISO NEWS

Breezy Projections for Wind in MISO — Even Before CPP Blows In

By Chris O'Malley

ST. PAUL, Minn. — Registered wind capacity in MISO is projected to rise 50% by the end of 2019 — and that's not even counting more turbines likely to sprout due to the Clean Power Plan.

MISO's wind capacity has grown to about 14,000 MW, from 1,200 MW in 2005. Wind represents about 13% of MISO's installed generation capacity — higher than the 7.5% for nuclear power but still well below that for coal and natural gas.

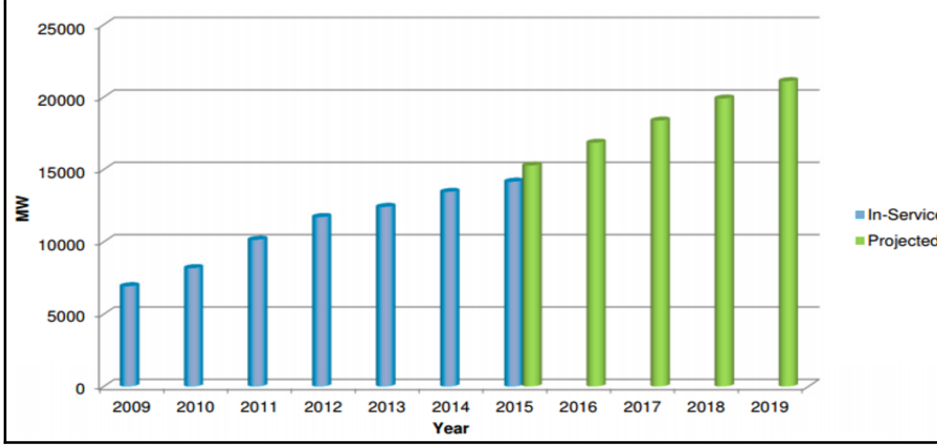
By 2019, based on its generation interconnection queue, MISO expects to have about 21,000 MW of wind in service.

"The growth of wind has been really, really steady, actually, over time. Projections continue to show similar growth as we experienced over the last five years," Joe Gardner, vice president of forward markets and operations services, told the Markets Committee of the Board of Directors last week.

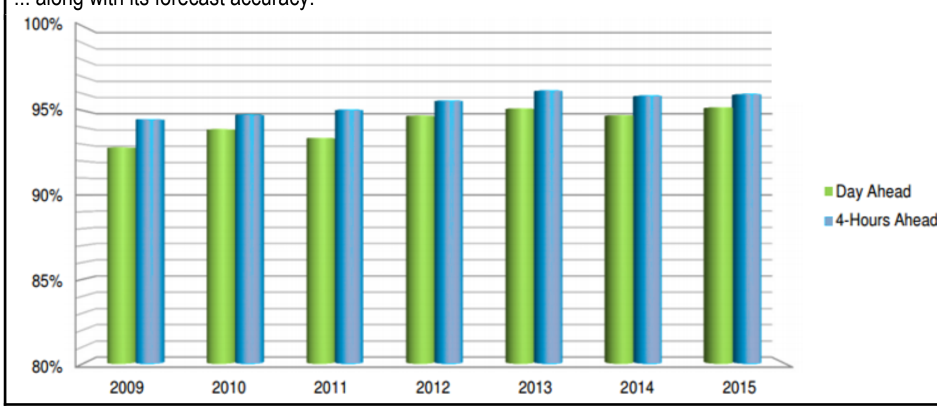
MISO officials said it's too early to tell how the wind projections will change as a result of the Environmental Protection Agency's final carbon emission rule, released last month. But "it's going to be a lot bigger," CEO John Bear said.

While MISO expects 25 GW of wind will be needed to meet existing state renewable portfolio standards, EPA's modeling assumes the RTO's wind portfolio will grow to 40 GW, said Claire Moeller, executive vice president of transmission and technology.

MISO's wind capacity has grown ...



... along with its forecast accuracy.



Forecasting Improves

Gardner told the board that staff is continuing efforts to improve its forecasting of wind availability, which he said is already "best in class."

"On any given day we could have close to zero megawatts of wind ... and on other days we can have 11 GW of wind. And from one day to the next you can have a swing of 6 or 7 GW," Gardner said. "So it's very important to try to get [the forecast] accurate. The more accurate the forecast is, the better our unit commitment is going to be and the lower our production cost is going to result and the more reliable we're going to be."

MISO staff uses an hourly forecast that looks seven days into the future in the reliability unit commitment process and to evaluate outage requests.

A five-minute forecast that extends six hours is used in real-time economic dispatch and look-ahead unit commitment. It also uses wind generators' own forecasts in economic dispatch, although those are available for only about one-third of wind farms.

Gardner said MISO's day-ahead wind forecasting accuracy has improved by about 2.5 percentage points since 2009, reducing the error rate to about 5%. The improvement is due in part to the incorporation of weather-prediction modeling; MISO added a fourth weather model in the second quarter.

Gardner said that's better than the estimated error rate of other grid operators, including PJM's 4 to 8% error rate, ERCOT (8%) and CAISO (10%).

"Does this forecasting accuracy give you comfort ... that we're not seeing drastic, unexpected shifts in the wind in a short period of time that causes impacts to reliability because of ramping capability in other units in the system?" Board Chair Judy Walsh asked Gardner.

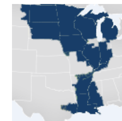
"[It's] not a huge amount of risk," Gardner replied. "It's not so much because of how accurate our forecast is. I think it's more a result of geographic diversity and where the wind is located."

He also said MISO plans a number of additional forecasting enhancements, including improved distribution of locational wind forecasts and replacement of vendors whose forecasts have persistent errors.

Solar Outlook Needed

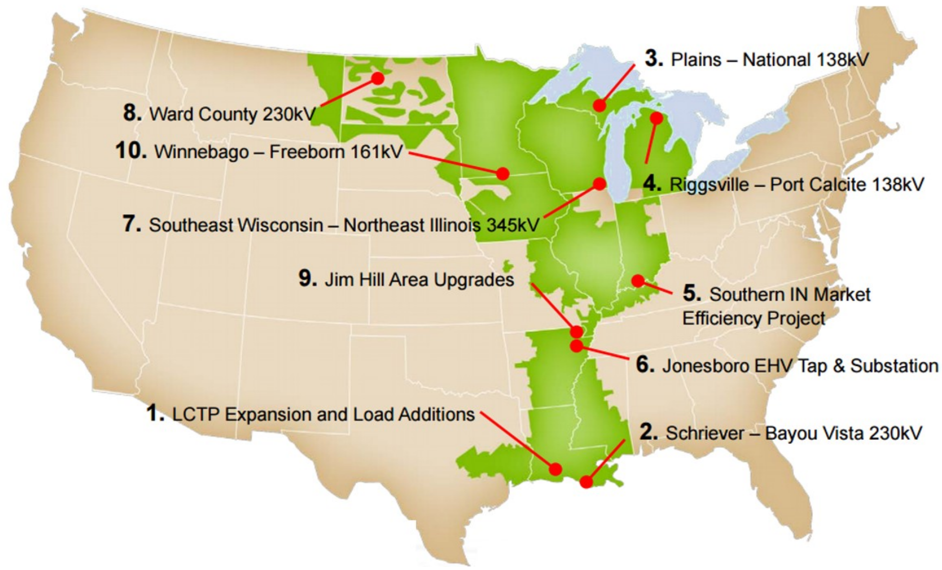
Forecasting also will be needed to accommodate the rise of solar power generation. Gardner said an in-front-of-the-meter solar project is expected in MISO's footprint in 2017. "So we're preparing to be able to forecast that and I expect there will be some more [solar] beyond that," he said.

MISO NEWS



MISO Proposes $2.4 Billion in Transmission Projects

By Chris O'Malley



The 10 most expensive projects in MTEP 15 represent 35% of the total cost. *Source: MISO*

ST. PAUL, Minn. — MISO staff will seek board approval in December for about 352 transmission projects totaling $2.4 billion in its 2015 Transmission Expansion Plan.

That's virtually the same dollar amount as MTEP 14, but this year's plan includes more baseline reliability projects and what could be the first competitively bid market efficiency project.

The largest of the projects in MTEP 15 is Entergy's controversial $187 million Lake Charles, La., baseline reliability project to accommodate an industrial upswing in the gulf region. (See *Entergy Out-of-Cycle Requests Win MISO Board OK*.)

The market efficiency project ranks fifth in cost at an estimated $67 million to $72 million. MISO is considering three alternatives to relieve congestion in southern Indiana, with PJM as a potential partner. MISO Vice President for Transmission Jennifer Curran told the Board of Directors' System Planning Committee last week that a request for proposals could be posted in January, with developer proposals due in July. (See *Southern Indiana Transmission Project Keeps Morphing*.)

Another significant portion of MTEP 15 is a bundle of 13 transmission upgrades identified in the voltage and local reliability study to reduce costs in MISO South. Estimated at $300 million, the projects should produce $498 million in 20-year net present value benefits by decreasing the need for uneconomic generation in load pockets such as Amite South and WOTAB, MISO executives told the board.

More Baseline Projects

While the total price tag for MTEP 15 is nearly identical to MTEP 14 — a coincidence, RTO officials said — the complexion of projects differs significantly. Proposed in MTEP 15 are 91 baseline reliability projects totaling $1.2 billion, compared to 50 projects totaling $177 million in 2014.

Projects driven by local needs are fewer in MTEP 15: 251 for a total of $1 billion versus 312 projects for $1.6 billion in MTEP 14.

The big difference was the inclusion in MTEP 14 of the $676 million 500-kV Great Northern transmission line, built in response to a long-term transmission service request from the Manitoba border to the Iron Range in Minnesota.

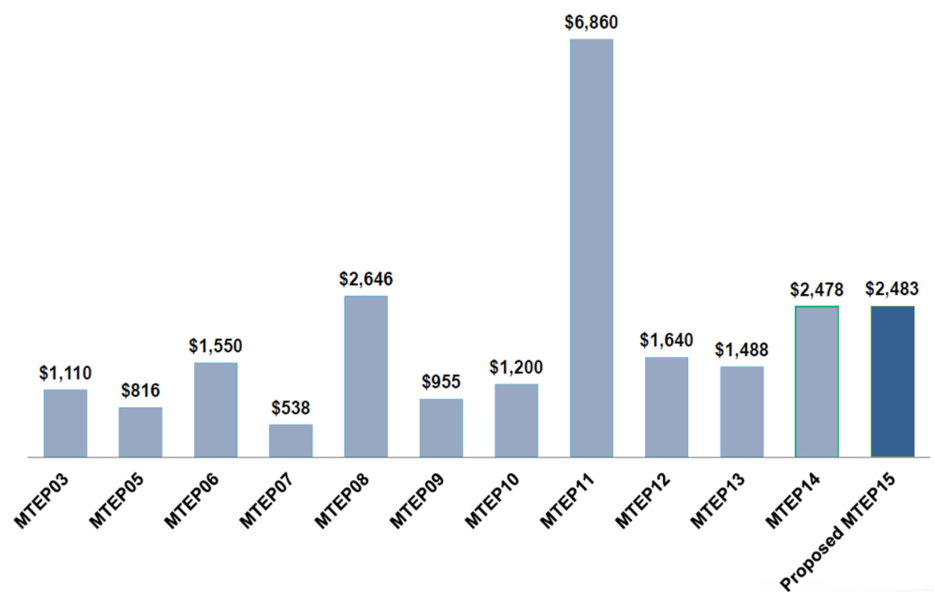
Interregional Planning

Curran also updated the board on the status of interregional planning efforts, which have shown mixed results.

She acknowledged that at least two of three potential MISO-SPP interregional projects earlier touted to offer $235 million in benefits are now "uncertain to unlikely."

Curran said the two projects now look less attractive in part because of differences in how the two RTOs modeled the impact of the Environmental Protection Agency's Mercury and Air Toxics Standards. MISO applied MATS retirement assumptions about SPP generation in the MISO model, but SPP did not have the same retirements show up in its model. (See *2 of 3 MISO-SPP Seams Projects Likely Doomed*.)

"There are also differences in the amount



MTEP spending 2003-15 ($ millions) *Source: MISO*

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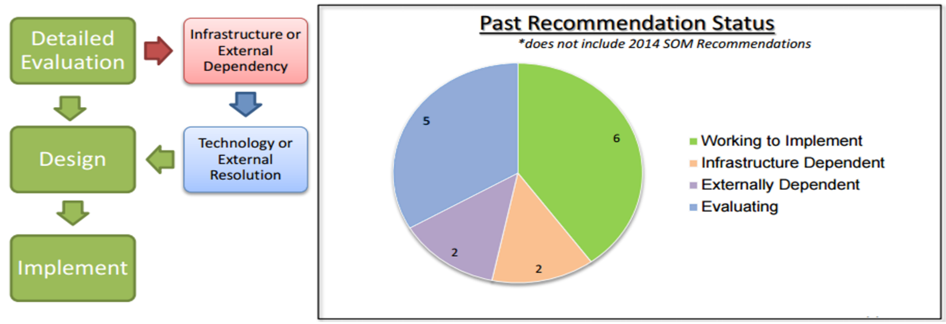
MISO NEWS

What Happens to All Those Market Monitor Recommendations? It's Complicated

By Chris O'Malley



MISO response to Market Monitor recommendations. *Source: MISO*

ST. PAUL, Minn. — MISO has a pile of 22 active recommendations made over the years by its Independent Market Monitor, all in various stages of progress.

One, which would optimize the interchange and improve price convergence with PJM and SPP, dates back to 2005.

"We are working through all those," Jeff Bladen, MISO's executive director of market design, said at last week's Markets Committee of the Board of Directors. Bladen said action on some items has been delayed by technology upgrades and others by the need to reach agreement with neighboring regions.

His update on the status of Monitor David Patton's State of the Market recommendations was instructional about the roadblocks that can stand in the way of even what arguably are the best ideas.

Dependencies

Of 15 past recommendations through the 2013 State of the Market Report, MISO is working to implement six. Two are "externally dependent" and the other two are "infrastructure-dependent." Five are still being evaluated: one from 2008 and two each from 2010 and 2012.

Perhaps the best-known externally dependent recommendation is to eliminate the hurdle rate involving transfer of power between MISO's southern and central regions, the subject of settlement talks with SPP. The IMM has recommended collecting transmission costs that may be payable to SPP and other parties under the settlement through a fixed charge. (See related story in *MISO Market Committee Briefs*, p.13.)

As an example of an infrastructure-dependent recommendation, Bladen cited a five-minute real-time settlement for generation, which he said is dependent on rule changes and replacement of the RTO's settlement software. A virtual spread product is another example.

Board Chair Judy Walsh called for urgency on technology upgrades needed to address some recommendations, saying they should be identified by staff and vetted by the board "sooner rather than later."

Director Baljit "Bal" Dail said he was curious if MISO tracks the time it takes to "close out" a recommendation. "I'm just trying to get a sense of [whether] things are progressing at the pace they should be progressing," Dail said.

Bladen said MISO does not have such a metric but that it might be worth considering.

ELMP

Director Paul Feldman noted a past recommendation that has come to fruition — extended LMP — and asked whether it has achieved expectations.

ELMP allows fast-start resources that are either scheduled at limits or offline to set price, an effort to smooth price spikes and minimize uplift. (See "Extended LMP Starts" in *MISO Board of Directors Markets Committee Briefs*.)

Bladen said ELMP "has met our rather modest" expectations since it was initiated March 1. "We've seen noteworthy changes in price that reflects the kind of change we would have thought should occur given the design," he said.

Bladen said MISO staff would provide a fuller report at the November Markets Committee meeting, when it will have eight months of operating data under the new rules.

Director Michael Curran drew laughter when he recommended that MISO provide a "scientific, wild-ass guess" as to when a recommendation might be completed.

Curran also recommended that staff include a chart indicating what recommendations have already been implemented. "Otherwise you're just looking at backlog and not really getting the credit you should for the successes you've had," he said.

MISO Proposes $2.4 Billion in Transmission Projects

Continued from page 9

and type of generation added, leading to a larger net addition of future generation in the interregional models when compared to the MISO regional models," MISO spokesman Andy Schonert said. "The magnitude, type and location of these future units can lead to increased transfers and resulting differences in congestion levels at seams, which impacts the projected value associated with certain transmission projects."

Potential interregional projects with PJM also were pared down.

In June, the RTOs narrowed the list of "quick hit" flowgate projects to two, from 39 in March. Among the survivors is the proposed resagging of the Northern Indiana Public Service Co. section of the Michigan City-La Porte 138-kV line.

The nearly $10 million in congestion relief for the finalists is a big reduction from the $408 million in potential congestion relief that the 39 projects initially identified could have brought. However, Curran told the board that MISO officials found that 22 of the flowgates had already been included in other planned or currently in-service projects.

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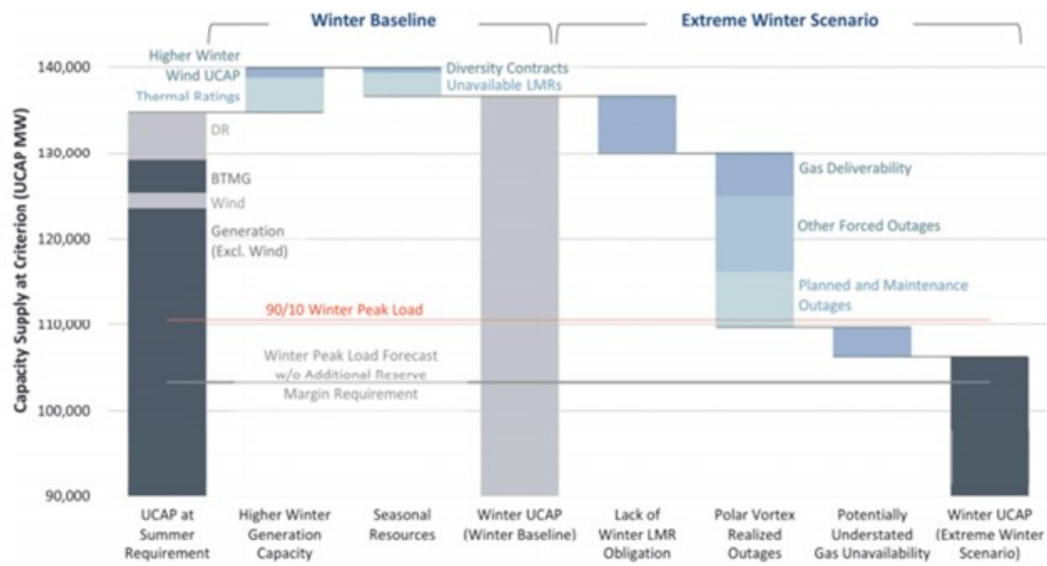
MISO Seasonal Procurement, Site Auctioning Proposals Face Opposition

Continued from page 1



Summer-based reliability standard. *Source: MISO*

"We don't have consensus, which shouldn't surprise everybody, but I think we're getting very good input," CEO John Bear said afterward.

Seasonal Procurement Idea Receives Push Back

Bladen said the proposal for seasonal procurement was driven by concerns over the year-round availability of resources such as demand response and generation imports. Bladen said seasonality was one of the top three concerns cited by stakeholders in discussions.

"It goes well beyond demand response. There's lots of different resource types that have either limitations in terms of the times of year they can offer to commit to MISO or have limitations in terms of the economics of how often they want to be available. Examples might include … imports from other regions that might need to be committed to the other region in some parts of the year."

Mitch Myhre of Alliant said he was "supportive of what MISO has proposed so far."

Exelon's Marka Shaw, of the Power Marketers sector, questioned the need for the change, saying there is a greater need for a long-term price signal to incent generator construction.

"You may have solved a problem with Canada and may have created a problem with PJM because the PJM market doesn't have a seasonal construct," she said.

Representing the Independent Power Producer sector, Dynegy's Mark Volpe agreed, calling PJM MISO's "most important seam."

"They've got an annual construct there, and [seasonal procurement in MISO] would seem to be at odds with talk of trying to converge capacity products," he said.

Bladen noted that MISO's just-in-time capacity procurement is already different from PJM, in which resources commit three years in advance.

"It's hard to see how that would preclude resources from making the same kinds of decisions in the future that they make today on whether to commit to PJM three years in advance or to think about committing to MISO," he said. "The perspective we've taken so far is having a better price signal that reflects the real loss-of-load expectation in the seasons might actually draw resources to" MISO.

Representing the Public Consumer sector, Nancy Campbell of the Minnesota Department of Commerce backed MISO's initiative. "We don't think that the seams issue should [prevent] going forward with the seasonal resources. In fact maybe that's something we should encourage PJM to do as well."

NRG Energy's Tia Elliott, of the IPP sector, questioned why MISO was citing the 2014 polar vortex as justification for the change after saying it was not sufficient for changing the day-ahead energy schedule. "I think that MISO might be talking out of both sides," she said.

John Moore of the Sustainable FERC Project also supported the effort, saying winter wind should have a higher capacity factor than the year-round 14.7% it is currently assigned.

"In MISO, a 13 to 14% annual capacity factor for wind, and also a relatively low capacity factor for solar, just doesn't make sense to us. Where wind does very well it's higher than that. So we think that a seasonal construct would help address that and bring more value to the resources that are out there."

Calpine's Brett Kruse said that NYISO and ISO-NE incorporate seasonality in their capacity procurement, with "pros and cons."

But he said it would do little to make MISO more attractive to generators. "If you honestly think this is going to help with price signals on the capacity side, I got $100 that I'll bet you right now that it doesn't do anything," he said.

The discussion gave Market Monitor David Patton an opportunity to offer a plug for his recommendation that MISO adopt a sloped demand curve similar to that used by PJM and recently adopted by ISO-NE.

Referring to Kruse's comment in an earlier discussion about the potential for some combustion turbine owners to move them from MISO, Patton said, "It sounds crazy, but it's not."

Patton said seasonality wouldn't necessarily reduce overall capacity costs but could allow efficiencies for owners of some older generators who would like to reduce plant staffing during shoulder months. "Those are good cost savings because they don't cost other generators money," he said.

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MISO Seasonal Procurement, Site Auctioning Proposals Face Opposition

Continued from page 11

Bladen said the discussion will continue at Thursday's meeting of the Supply Adequacy Working Group, where stakeholders will discuss how many seasons to consider.

"We haven't gotten into the details of what the makeup would be: whether it's a single auction; whether it's multiple auctions that are prompt; whether it's two seasons or more than two seasons. We've tried to stay a little bit above that at this point, with a recognition that we will need to tackle that," he said.

State Officials Wary of New Zonal Boundaries

MISO's proposal to establish local resource zones based on physical constraints also sparked some opposition, even after RTO officials promised any new zones would respect state boundaries.

Michigan Public Service Commissioner Sally Talberg, representing the Organization of MISO States, said OMS favors keeping the existing zones.

Several speakers, including Indiana Utility Regulatory Commissioner Angela Weber, said they feared basing zones on physical limitations would result in "volatility."

Chris Plante of Wisconsin Public Service Corp. said the Transmission-Dependent Utilities sector does not have "perfect alignment" in their position on the issue. But he said the sector did agree there is a problem in using "snapshot" power flow analyses to determine zones, because new generation, retirements, new transmission and loop flows can impact the results.

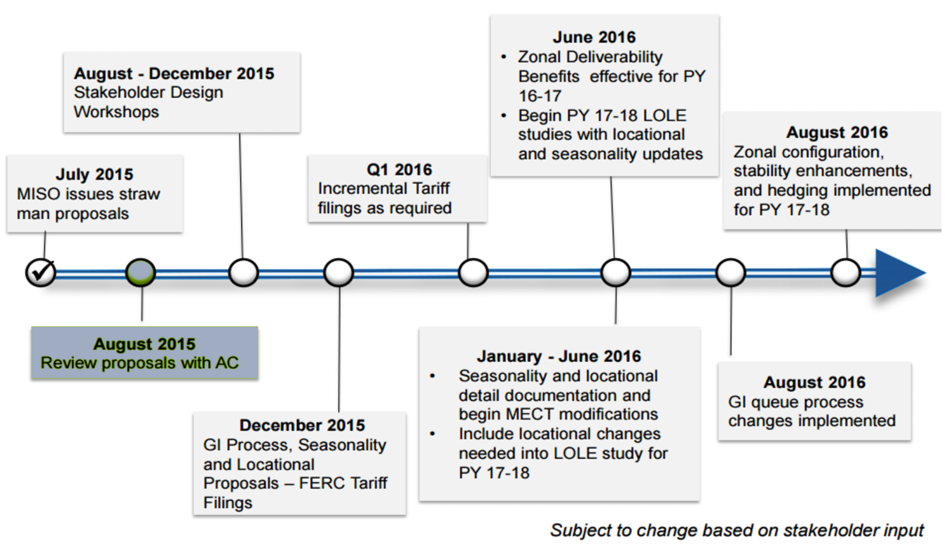
"Our concern is if you try to design those zonal boundaries based on those constraints every year, you're going to have stakeholders coming to you and saying we need to redraw the boundary because something has changed," he said. "We see already with the [capacity import and export limits and loss-of-load expectations]. They vary from year to year — sometimes dramatically."

Dynegy's Volpe said, however, that much of that volatility is due to recent improvements in LOLE analysis, including the lowering of the threshold from 230 kV to 100 kV. "We haven't had stability in the ground rules around the LOLE study," he said.

Patton said while the uncertainty caused by continually changing zonal boundaries can be "damaging," price changes that signal shifts in the supply-demand balance are valuable.

"Defining interfaces that create potential deliverability problems [that] may bind or may not bind … has a huge benefit over a structure like in New York where you're continually fighting about … whether you're going to define a new zone." Failing to define zones consistent with physical transmission limits can result in not purchasing enough capacity on the right side of the constraint, he said. "So you're exposing yourself to resource adequacy or transmission security problems that would potentially have been easy to avoid if you just quantify how much capacity you have to have on this side of the constraint versus that side of the constraint."

Patton said creating additional zones to reflect state boundaries is not a problem. "You can't have too many zones. If you define zones you don't need, they just don't bind and the prices equilibrate. The idea that Amite South and WOTAB are not separately recognized as places where we need generation seems really hard to justify."



MISO resource adequacy timeline. *Source: MISO*

Stakeholders Agree on Need to Reduce Interconnection 'Churn;' States Oppose Auction of Generator Sites

MISO's call for reforms to the generator interconnection process drew wide support, but its proposal to replace the interconnection queues with the auctioning of pre-qualified generation sites drew opposition from Indiana's Weber, who said auctioning might undermine state jurisdiction.

Dehn Stevens of MidAmerican Energy said the Transmission Owners support measures to reduce "churn."

"There's nothing more frustrating than to have something like three of every four projects we look at as owners … never actually get built," he said. "It's a very inefficient use of our internal resources."

"If you're providing cost certainty to a generator that's interconnecting, but the costs differ [because of other generators dropping out of the queue], you can be basically moving costs onto the transmission owner or its … customers."

Beth Soholt of Wind on the Wires said she was concerned that MISO proposals to increase the cash at risk for those in the generation interconnection queue could be a barrier to entry.

"In each queue reform process, we have put different mechanisms in place for the different milestones. So we've gone from really a portfolio option, or a smorgasbord of options, for interconnection customers on readiness — site control and the whole raft

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MISO NEWS

Markets Committee Briefs

Settlement with SPP over 1,000-MW Limit Will Eliminate 'Hurdle Rate'

ST. PAUL, Minn. — MISO, SPP and intervenors in the dispute over MISO's use of SPP transmission to deliver power between its northern and southern regions have begun circulating drafts of a settlement amid optimism that it will be filed with FERC in October (ER14-1174).

Discussions on how costs paid to SPP will be allocated within MISO will begin in September "on a separate track," Eric Stephens, deputy general counsel, told members at the MISO Informational Forum last week. Stephens said confidentiality rules on the settlement talks prevented him from discussing specifics of the deal.

But Market Monitor David Patton told the Markets Committee of the Board of Directors later that the settlement will allow MISO to eliminate use of its $9.57/MWh "hurdle rate" in determining whether to allow more than 1,000 MW of power flows between its two regions.

"We need to make sure that's the case, but I think the team at MISO did a good job of moving the settlement in a direction that allows us to do that," Patton said.

MidAmerican Energy's Dehn Stevens told the Board of Directors meeting later that the Transmission Owner sector is "very comfortable with where [the settlement is] at."

Organization of MISO States President Libby Jacobs told the board that her group is "very optimistic that there's resolution on the horizon."

MISO-SPP 1,000-MW tie *Source: SPP*

"OMS would encourage that to be rapidly finished so that everyone's focus can be on other issues," she said.

In spring 2014, MISO began limiting flows between its northern and southern regions after SPP complained that MISO breached their joint operating agreement by moving power over its transmission footprint in excess of a 1,000-MW contract path.

While seeking to resolve the dispute with SPP, MISO implemented a $9.57/MWh hurdle rate — an adder to the LMPs of the importing sub-region — to establish market signals indicating when the savings from avoided redispatch costs exceed SPP's additional transmission charges.

Patton: Fear of FTR Gaming over WAPA Integration Hasn't Materialized

Patton told the Markets Committee that his staff has seen little evidence to confirm fears that SPP's integration of the Western Area Power Administration (WAPA) could give market participants an opportunity to game the market by buying financial transmission rights from SPP "whose value predictably would change significantly" following the integration.

"We didn't see a lot of participants engage in strategic FTR purchases the way we had thought they would," Patton said.

He said his staff is continuing to review how SPP's dispatch including WAPA affects MISO's constraints in the FTR market and market-to-market process.

"We don't have significant concerns, but it is a significant change because WAPA stretches from the Dakotas down to the southern end of SPP. It's a huge change in their configuration. You can think of it as similar to our integration of MISO South."

"So, no red flags, just continued vigilance?" asked Director Michael Curran.

"Yes," Patton replied.

— Rich Heidorn Jr.

MISO Seasonal Procurement, Site Auctioning Proposals Face Opposition

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of things they can do to prove readiness to move through the queue — we've really gone to [requiring] a large pile of cash at risk."

Soholt added that wind developers are willing to put more cash at risk if it leads to more certainty about costs of transmission upgrades they would be required to pay. "But that certainty has been elusive through several rounds of queue reform," she said.

Next Steps

MISO and stakeholders will refine the seasonal and locational proposals in joint meetings of the SAWG and the Loss of Load Expectation Working Group through December with hopes to make changes effective for delivery year 2017/18.

The interconnection changes will be discussed by the Interconnection Process Task Force with a projected implementation in August 2016.

MidAmerican Energy's Stevens said MISO's timeline is "very aggressive" for such large changes.

"I would question the supposition that the sky is going to fall in two or three years with the reserve margins. I think we saw in this last update [to the MISO-OMS survey] that the shortfall moved out a year or two. Sure seems like you might see that again in a year that the shortfall is moved out," he said. "You are going to be better served getting it right and having fewer than 150 people fighting you at FERC."

MISO NEWS

Board of Director Briefs

Clark: EPA CO_2 Rule Put 'Bull's-eye' on MISO, SPP

ST. PAUL, Minn. — FERC Commissioner Tony Clark told the MISO Board of Directors meeting last week that the biggest surprise in the Environmental Protection Agency's final carbon emission rule was that it put a "bull's-eye" over MISO and SPP, giving their states the toughest compliance targets.

Clark said he was optimistic that the electric industry will ensure reliability but that the Clean Power Plan will result in "hundreds of millions [of dollars]" in stranded generation that will be forced to retire before the end of its operating life. There's "only expensive and *really* expensive" ways to comply, he said.

Claire Moeller, executive vice president of transmission and technology, said the final rule reduced MISO's overall carbon limit, tightening caps for eight states and relaxing them for seven. "So most of the input assumptions in [MISO's modeling based on the draft rule] were dead wrong," he said. (See *MISO: EPA Carbon Rule Will Mean 'Multibillion Dollar' Transmission Build-Out*.)

Moeller said, however, that the modeling helped planners understand "the intersection" of the gas and electric industries and determine whether the lowest cost compliance means more gas pipelines or more electric transmission. "Unsurprisingly it's a combination of those things," he said.

Moeller said EPA's two-year delay in the interim compliance targets "really didn't take the pressure off" states because of the long lead time needed for compliance measures.

He questioned EPA's prediction that the rule will result in a "dramatic" load reduction that will result in reduced end user bills despite the compliance costs. "Lots of people worry about that assumption," he said to laughter from the audience.

Director Baljit "Bal" Dail agreed, noting that many consumers in MISO's footprint struggle to pay their day-to-day bills. "The notion that they're going to go out and upgrade their appliances [to more energy efficient models] is highly unlikely," he said.

Moeller also criticized the "vagaries" of EPA's modeling, which will credit existing wind turbines differently from new generators.

He said it is impossible to estimate now what the cost of the rule will be to end consumers because much will depend on how states choose to comply. Moeller noted that Arkansas has no renewable portfolio standard, and little wind power. "Will they build wind or will they retire coal and build new gas [generation]?" he asked.

He said staff will share its plan for analyzing the impact of the final rule at the October board meeting.

"Most of the input assumptions ... were dead wrong."

Claire Moeller, on MISO's modeling based on the draft Clean Power Plan

Board May Slow Term Limit Transition

MISO's board is considering slowing the transition to the term limit rule it enacted in June, concerned that a rapid transition could leave it without enough "institutional knowledge."

Chairman Judy Walsh called on the board last week to amend the rule, which limits directors to three three-year terms.

"Without some thoughtful transition, we will very shortly find ourselves with a majority of our directors who will have three years of experience or less," Walsh said. "The implementation of term limits will work out that three directors could easily term out in the same year. So I would like to request the Governance committee to consider a transition ... to keep greater institutional knowledge on the board and ideally to have only one director terming out each year."

Corporate Governance & Strategic Planning Committee Chairman Eugene Zeltmann said the committee is already considering the request.

Directors Michael Evans and Michael Curran had expressed misgivings about the term limits at the June meeting. (See *MISO Sets Term Limits for Board*.)

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	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 eligible 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

* Based on public information (September/October 2014)

RTO governance rules. *Source: MISO (PJM information updated by RTO Insider)*

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Board of Director Briefs

MISO Board of Directors © *RTO Insider*

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The three-term limit already comes with a caveat: Directors may petition for a waiver allowing a single additional term upon the determinations by the board and the Governance 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.

In a related matter, the board discussed guidelines for the Nominating Committee process. Walsh asked for revisions to make it clear that the document "should be helpful to the Nominating Committee but not [too] prescriptive."

Director Dail said the Nominating Committee is reviewing 29 resumes of director candidates.

Consumers Energy Joins TO Sector

Consumers Energy, which sold off its high-voltage transmission in 2001 to what is now ITC Holdings, was approved last week as MISO's newest member of the Transmission Owners sector.

The company sold about 5,400 miles of 345-kV and 138-kV transmission and 80 substations in Michigan's Lower Peninsula, while retaining its radial 138-kV lines.

Jim Anderson, Consumers' executive director of electric transmission and high-voltage engineering, said the shift in the company's MISO membership reflected the North American Electric Reliability Corp.'s reclassification of Consumers' 138-kV transmission as part of the Bulk Electric System (BES).

FERC approved a new BES definition, which refines the exclusions for radial facilities and local networks, in March 2014. (See *FERC Refines Bulk Electric System Definition*.)

In April, FERC approved Consumers' request to reclassify as transmission 65 138-kV line segments and six substations connecting those lines to the company's bulk power substations (ER15-910). (See *Consumers Energy, Wolverine Power OK'd to Reclassify Facilities as Transmission Assets*.)

Consumers had been a member of the Municipals, Cooperatives and Transmission-Dependent Utilities sector.

— Rich Heidorn Jr.

Clark: Energy Markets Need Tweaks, not Overhaul

By Rich Heidorn Jr.

ST. PAUL, Minn. — FERC Commissioner Tony Clark said last week that the commission has "a sense of urgency" to take action on price formation issues after initiating an inquiry into the subject more than a year ago.

Clark *Source: FERC*

"There's active discussion going on on the 11th floor [of FERC headquarters] right now with regard to different options," he said during remarks at the MISO Board of Directors meeting.

Clark said the commission could take action to improve price transparency and reduce uplift but that he is skeptical of the need for major change.

"The thing about the energy markets that's not lost on any of us is they are our best operating markets. They tend to work quite well," he said. "Personally I don't think we need to upset the whole apple cart."

The commission opened a docket to consider rule changes regarding uplift, price caps and related issues as a result of comments made at technical conferences on capacity markets and the grid's response to the January 2014 polar vortex (AD14-14).

It closed comments in the docket in February, following a technical conference last September. (See *PJM Under Scrutiny at FERC Uplift Hearing*.)

Queue Reform

Clark said the commission also may open an inquiry on generator interconnection and queue reform.

"In the 15 to 16 years I've been on a regulatory commission, this issue never seems to go away," he said. "But it does seem like it's an opportune time for the commission to do one of these periodic checkups" to examine best practices.

"I don't know how dramatic the reform effort will be or what it might take shape as, but it seems like it's a good time to at least be opening an inquiry as to how things are going," he continued, adding, "That's more of a future topic; we're not at the decision-making stage by any means." (See related story, *MISO Seasonal Procurement, Site Auctioning Proposals Face Opposition*, p.1.)

ISO-NE NEWS

Dueling Studies Dispute Need for More Pipelines in New England

By William Opalka

Two studies released last week came to opposite conclusions on the need for additional natural gas pipeline capacity in New England.

The results were unsurprising: One study was funded by domestic natural gas producers; the other by a liquefied natural gas importer.

GDF SUEZ

One report, funded by GDF SUEZ Energy North America, which operates an LNG import terminal in Everett, Mass., concluded that the region has adequate pipeline capacity to meet winter power demand, especially if contributions from dual-fuel-capable generation and LNG are expanded.

The report, written by international consultant Energyzt Advisors, is highly critical of the proposal embraced by several New England governors to help fund added natural gas infrastructure with a tariff assessed on electricity ratepayers. (See *New England Governors Revise Energy Strategy*.)

"The proposed electricity ratepayer funding of additional gas pipeline capacity is an expensive and dangerous proposition in terms of ratepayer cost and healthy market function in New England," the report says.

ANGA, API

The second report, sponsored by America's Natural Gas Alliance and the American Petroleum Institute, which represent domestic oil and gas producers, says that the region will pay $5.4 billion in higher energy costs (2014 dollars) between 2016 and 2020 unless more pipelines and other infrastructure are built.

"The $5.4 billion in added costs will ramp up from 2016 through 2020, increasing the region's electricity and natural gas costs by 9% in 2020, according to forecasted energy demand and costs," says the report, written by Boston-based LaCapra Associates and the Economic Development Research Group.

It was issued by the newly formed New England Coalition for Affordable Energy, which also includes business groups, real estate interests and a utility workers union.

New England's governors and ISO-NE have said existing pipelines are inadequate to supply the generation base, especially as more natural gas generation enters the power plant portfolio and older coal-fired plants retire.

The GDF SUEZ report says pipeline projects already underway are enough to meet peaking needs. It cited several projects, including Spectra Energy's Algonquin Incremental Market Project and the Atlantic Bridge Project, which are expected to increase capacity by 600 million cubic feet per day by the winter of 2017-2018. (See *Hearing on Algonquin Pipeline Expansion Highlights Local, National Issues*.)

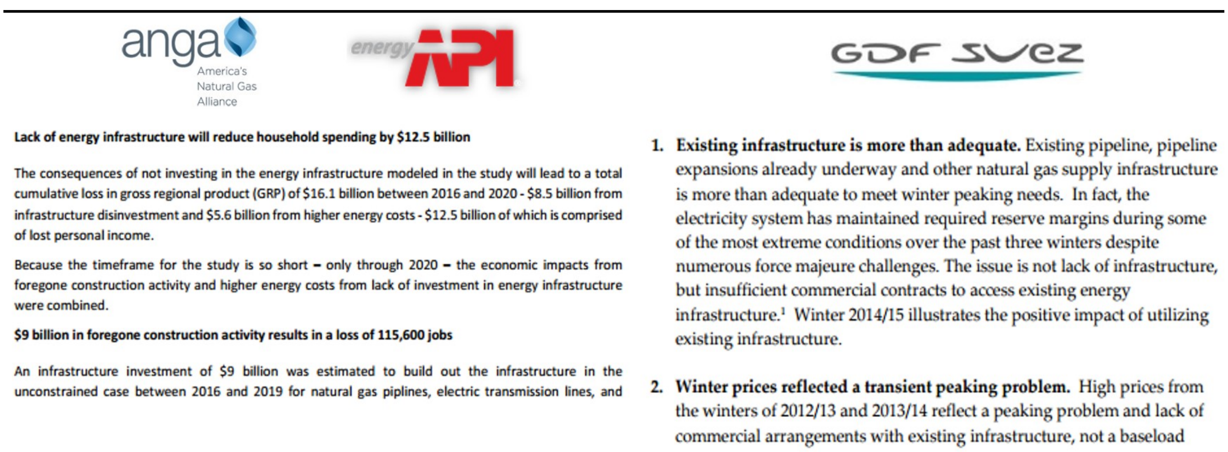
Winter Reliability Program

ISO-NE has used a winter reliability program the past two years to combat tight natural gas supplies that are diverted to heat homes and businesses on the coldest days. The program has created incentives for LNG use and for power generators to store oil on-site for plants that can burn either fuel. The GDF SUEZ report also cites ISO-NE's Pay-for-Performance program, set to debut in 2018, as another reason additional pipelines are not needed.

"The issue is not lack of infrastructure but insufficient commercial contracts to access existing energy," the report says. "The market is responding with dual-fuel capability and LNG contracts. This past winter 2014/15 has demonstrated the powerful ability of competitive natural gas and electricity markets to respond to price signals," it adds.

The ANGA/API report counters that energy infrastructure constraints have cost the region at least $7.5 billion over the past three winters. "Pipeline infrastructure has not kept pace with this increased demand and is reaching maximum capacity, especially during the winter months, to meet both electricity generation and space heating demands," it said.

The authors said their study is more comprehensive than other analyses that considered only a single type of infrastructure. It includes a scenario in which no new additional infrastructure investments are made and an "unconstrained" case assuming $9 billion in spending for natural gas pipelines, electric transmission and generation.



anga America's Natural Gas Alliance

energy API

Lack of energy infrastructure will reduce household spending by $12.5 billion

The consequences of not investing in the energy infrastructure modeled in the study will lead to a total cumulative loss in gross regional product (GRP) of $16.1 billion between 2016 and 2020 - $8.5 billion from infrastructure disinvestment and $5.6 billion from higher energy costs - $12.5 billion of which is comprised of lost personal income.

Because the timeframe for the study is so short – only through 2020 – the economic impacts from foregone construction activity and higher energy costs from lack of investment in energy infrastructure were combined.

$9 billion in foregone construction activity results in a loss of 115,600 jobs

An infrastructure investment of $9 billion was estimated to build out the infrastructure in the unconstrained case between 2016 and 2019 for natural gas piplines, electric transmission lines, and

GDF SUEZ

1. **Existing infrastructure is more than adequate.** Existing pipeline, pipeline expansions already underway and other natural gas supply infrastructure is more than adequate to meet winter peaking needs. In fact, the electricity system has maintained required reserve margins during some of the most extreme conditions over the past three winters despite numerous force majeure challenges. The issue is not lack of infrastructure, but insufficient commercial contracts to access existing energy infrastructure.[1] Winter 2014/15 illustrates the positive impact of utilizing existing infrastructure.

2. **Winter prices reflected a transient peaking problem.** High prices from the winters of 2012/13 and 2013/14 reflect a peaking problem and lack of commercial arrangements with existing infrastructure, not a baseload

Studies sponsored by domestic gas producers and a gas importer came to unsurprisingly opposite conclusions about the need for additional pipelines in New England. *Sources: New England Coalition for Affordable Energy, GDF SUEZ*

COMPANY BRIEFS

Environmental Compliance Wrinkles Alliant's Credit Outlook

Capital spending to comply with the Obama administration's environmental regulations is dinging the credit outlook for Alliant Energy, parent company of Wisconsin Power and Light and Interstate Power and Light in Cedar Rapids, Iowa.

Moody's Investors Service has changed its outlook for Alliant to negative from stable. "The negative outlook on the Alliant family's ratings reflects financial metrics that are weak for their ratings and likely to deteriorate over the next few years as its utility subsidiaries incur incremental debt to finance their extensive, multi-year capital expenditure plans," analyst Lesley Ritter said. If trends continue, Moody's said, Alliant's A3 senior secured rating "would likely be more appropriately reflected in a Baa1 rating."

Since 2011 Alliant has invested $1 billion in environmental retrofits and is projected to spend up to $1.8 billion more to build gas-fired generating units to replace aging coal and gas units.

More: *Moody's*

DTE Plans Solar Facility for Ypsilanti

DTE Energy is planning to build a 2,800-panel solar farm in Ypsilanti, Mich., by the end of next year. The 800-kW facility would power about 150 homes.

DTE says it's the largest solar developer in Michigan, with 10 MW from 22 sites in the southeast part of the state. The utility said it has now met a state-mandated renewable portfolio standard.

The company did not release the estimated cost of the Ypsilanti project.

More: *Zacks Equity Research*

Duke Energy's South Carolina Tx Project Draws Angry Opponents

A Duke Energy proposal to build a 45-mile transmission line and a new substation in South Carolina to serve growing demand in western North Carolina drew about 800 people to a public hearing.

Most of the speakers at the South Carolina Public Service Commission's hearing oppose the project. Their objections include the line's location, the technique or type of transmission line or the very fact of its planned existence.

Bill Mills of Caroland Farms in South Carolina said he has studied all of the options and concluded that "the best solution for the Carolinas is to have this project canceled."

More: *Charlotte Business Journal*

Philly Businessmen Buy Retired Exelon Plant for Hotel Project

Two Philadelphia businessmen, operating under the moniker Delaware Station LLC, have put down $3 million for the old Delaware Generating Station, formerly operated by Philadelphia Electric Co. They hope to convert the 16-acre property on the Delaware River to one or more hotels, as well as a shopping and catering complex.

Joseph Volpe and Bart Blatstein are the listed owners. Although there remain some small gas-fired turbines on the site, the main generating equipment at the station was retired decades ago.

More: *The Philadephia Inquirer*

FirstEnergy Starts Demolishing Cleveland's Lake Shore Plant

FirstEnergy has begun tearing down its retired Lake Shore Generating Station in Cleveland, a process that is expected to take about 16 months. The first steps are a full site survey and the demolition of several smaller outbuildings.

The former coal-fired power plant went into service in 1911 and was officially retired earlier this year. FirstEnergy plans to retain the property for alternative uses, a company spokeswoman said. While all generating equipment will be removed, some transmission equipment will remain on the site.

More: *Crain's Cleveland Business*

BP Repairs, Restarts Indiana Refinery

BP restarted a crude distillation unit at its giant Indiana refinery near Chicago last week, a move that is expected to put the brakes on spiking gasoline prices in the Midwest.

The unit at the Whiting, Ind., refinery was shut down Aug. 8 for repairs, which took longer than expected. The extended outage of the 413,500-barrel-per-day refinery, BP's largest in America, caused fuel shortages that sent pump prices skyward.

More: *Associated Press*

Dominion Resources Settles Pump Dispute

Dominion Resources, owner of Millstone Station nuclear plant, has reached a settlement with the Nuclear Regulatory Commission for its decision to halt the use of a safety-related pump in the event of a severe accident.

NRC on Thursday cited a "willful violation" for changes Dominion made without regulatory approval at its Millstone Unit 2 plant in Waterford, Conn. A Millstone spokesman said Dominion does not agree that the violation was deliberate.

Dominion agreed to change plant procedures governing the operation and testing of the charging pumps and provide complete and accurate information. Regulators said they became aware in September 2011 that Dominion submitted requests for approval of changes to the Unit 2 operating license that were incomplete and inaccurate.

More: *Associated Press*

FEDERAL BRIEFS

Judges Issue Mixed Decisions On EPA's Water Rule


Erickson

A federal district court judge in North Dakota has blocked the Environmental Protection Agency's new water pollution rule just hours before it was to go into effect. Judge Ralph Erickson issued a preliminary injunction blocking implementation of the rule in 13 states that had joined the suit. But a day earlier, a judge in West Virginia ruled in favor of the Obama administration and declined to interfere with EPA's rule.

The lawsuits are among 10 court challenges against the water rule filed by 29 states, along with groups representing the energy industry, real estate developers, farmers and others. The cases have been consolidated into one lawsuit at the Court of Appeals for the Sixth Circuit in Cincinnati, but Erickson argued that he could still issue his injunction.

The so-called Waters of the United States rule redefines and expands EPA's jurisdiction under the Clean Water Act. An EPA spokeswoman said the rule would go into effect in the states that did not join the suit blocking the rule. The 13 states where the rule is on hold are: Alaska, Arizona, Arkansas, Colorado, Idaho, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota and Wyoming.

More: *The Hill*

US Economic Growth at 9-Year High, If You Ignore Energy

The U.S. economy grew at the fastest rate in nine years — if you don't count energy, according to Bloomberg Business.

The plunge in oil and natural gas prices, along with the bleak outlook for coal, show an energy sector under pressure.

Investment in oil and mining projects by corporate investors fell 68% between April and June, following a 44.5% plunge for the January to March period.

More: *Bloomberg Business*

Penn State Gets $2.9 Million To Study New PV Panels

Electrical and mechanical engineering teams at Pennsylvania State University are working with experts at the University of Illinois and a photovoltaics company in Durham, N.C., to develop the next generation of solar panels, inspired by technology used in spacecraft.

The teams have received $2.9 million from the Department of Energy's Advanced Research Projects Agency-Energy (ARPA-E) to work on what they call "fixed-tilt photovoltaic cells." The cells use plastic "lenslets" and a tracking system that follows the sun to concentrate sunlight at 400 times intensity. The panels are constructed of common materials, such as Plexiglas, which reduces construction costs.

The technology aims to exploit the high-efficiency solar cells installed on spacecraft to generate power.

More: *Pennsylvania State University*

Obama: Time to Go Full Steam Ahead on Renewables

President Obama used his platform at last week's National Clean Energy Summit in Las Vegas to urge further investment and research on renewable energy. "This is not the time to pull back" on working on renewable technology and implementation, he said.

"We refuse to surrender the hope of a clean energy future to those who fight against it," he said. He noted that some firms that used to be concentrated on fossil fuel technology, such as Southern Co., are beginning to make serious investments in renewable energy.

Increasingly, individuals are driving the movement, he said. "People are beginning to realize they can take more control over their own energy — what kind they use, how much and when," he said.

More: *National Journal*

Appeal of EPA Clean Power Plan On Accelerated Timetable

The D.C. Circuit Court of Appeals panel hearing challenges to the Environmental Protection Agency's Clean Power Plan have agreed to an expedited pace for the case and ordered both sides to file their major legal arguments before the Labor Day weekend.

Those challenging the plan — state and industry groups — say the expedited schedule puts them at a disadvantage. States challenging the Clean Power Plan said the Aug. 3 promulgation of the rule is forcing them to develop sweeping regulatory changes before the legal challenges to the rule are heard.

Some observers say EPA's push for a hurried schedule can be attributed to the planned global summit on climate change to be held in December in Paris. The Obama administration's EPA says it wants the rule in place before the summit so that it "shows the world that the United States is committed to leading global efforts to address climate change."

More: *Fox News*

Schumer Proposes Extension, Changes to Solar Tax Credit


Schumer

Sen. Charles Schumer (D-N.Y.) is proposing changes to the federal solar investment tax credit that would extend the credit and make it apply to more businesses.

The tax credit, scheduled to phase down from 30% to 10% after 2016, would be extended "beyond 2016," he said. One reason for the longer timetable is to allow large-scale solar projects to develop. A phase-down of the credit is making it difficult for developers to secure financing.

Schumer also wants the tax credits to apply earlier in a project's life than currently allowed, which provides that solar-panel owners can get tax credits only when the system is placed in service. In contrast, wind tax credits are applied as soon as a project begins construction.

More: *FierceEnergy*

STATE BRIEFS

REGIONAL

Market Monitor Report: RGGI Prices Increasing

The Independent Market Monitor for the Regional Greenhouse Gas Initiative found no evidence of anti-competitive conduct in the CO_2 allowance secondary market, according to its "Report on the Secondary Market for RGGI CO_2 Allowances: Second Quarter 2015."

Potomac Economics found the average CO_2 allowance futures price was $5.53, 2% higher than in the first quarter and 19% higher than in the second quarter of 2014. Prices ranged between $5.30 and $5.60 from April until Auction 28 in early June, and then prices increased steadily during June and reached $5.80 at the end of the quarter.

The report addresses the period from April to June 2015. It is based on data reported to the Commodity Futures Trading Commission and the Intercontinental Exchange, as well as other data.

More: *Potomac Economics*

INDIANA

Consumer Agency Objects To IPL's Payments to Parent

The Office of Utility Consumer Counselor has asked regulators to deny Indianapolis Power & Light's 5.6% rate hike request that would generate $68 million more per year, saying IPL deserves only a fraction of that ---— just $6 million more a year.

The state agency representing consumers alleges the utility has given lip service to asset management while sending $507 million in dividends to parent AES between 2010 and 2014. Since 2010 there have been 14 fires or explosions of IPL equipment, including some events that launched manhole covers into the air in crowded downtown Indianapolis.

The consumer advocate told the Utility Regulatory Commission it doesn't think IPL has done enough to improve maintenance of its system. IPL countered that it has made numerous upgrades, including locks to keep manhole covers earthbound. IPL has not had a rate case since 1995.

More: *Indianapolis Star*

IOWA

Local Officials Shoot Down Black Hawk County Wind Project

The Black Hawk County Board of Adjustment last week rejected a proposed wind farm, citing residents' concerns about health, decreased property values and dangers to wildlife.

An attorney for the project's developers, Optimum Renewables, said there was no evidence that industrial turbines could endanger people or wildlife and said the harm to eagles and birds was exaggerated.

More: *Associated Press*

Co-op Rolls over on Solar Fee After Customers Complain

Pella Cooperative Electric is withdrawing its plan to charge customers with solar panels an extra $57.50/month after the plan touched off a firestorm of complaints. Pella notified the state Utilities Board that it was withdrawing the tariff it had filed earlier this year.

All Pella residential customers currently pay a $27.50 fixed monthly fee, and the co-op had wanted to increase that fee to $85 for solar customers. Pella maintained the fee was a fair way to assign costs of operating its system to users. "We have decided to withdraw the proposed increase on the facility charge for members who own or lease distributed generation until such time that we can better educate our members and the community as to the fair and equitable recovery of fixed costs," it said.

Solar customers rejoiced. "It kinda made my day," hog farmer Bryce Engbers said. He added he would have taken the solar arrays off his barns rather than pay the increased fee.

More: *MidWest Energy News*

LOUISIANA

PSC Approves Merger Of 2 Entergy Subsidiaries

By a 4-1 vote, the Public Service Commission approved a merger of Entergy Louisiana and Entergy Gulf States Louisiana. Company officials said the merger of the Entergy subsidiaries will result in up to $140 million in consumer benefits over the next nine years, including $107 million in bill credits.

The lone dissent was Commissioner Foster Campbell, who said he thought it unfair that residents and customers in the northern part of Louisiana will now be charged to help repair equipment damaged by storms that hit the southern Gulf Coast side of the state included in the Entergy Gulf States service territory.

Entergy Louisiana has about 700,000 customers. Entergy Gulf States Louisiana has about 400,000 electric and 93,000 gas customers.

More: *The News Star*

MINNESOTA

Xcel Energy Dragging Feet On Community Solar

Despite prodding from the state Commerce Department, Xcel Energy has approved just one community solar garden project, which has not yet been built.

The state issued a 2013 mandate to encourage development of community solar. Utility companies need to review and approve each proposed solar facility, and Xcel is currently reviewing 1,100 solar facilities.

Sunrise Energy Ventures, a Minnetonka-based solar developer, complained to state regulators about Xcel's delay in approving its proposal. SunShare, another community solar developer, and Sunrise each have submitted plans to build 100 MW of solar gardens that collectively would serve more than 30,000 Xcel customers.

More: *Star Tribune*

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STATE BRIEFS

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NEW JERSEY

Borough Introduces Ordinance Banning Unregulated Pipelines

The Borough Council of Bloomingdale has introduced an ordinance that would prohibit unregulated pipelines from being built or operated in the borough, a move to discourage the Pilgrim Pipeline from locating within municipal boundaries.

The borough and its residents have been actively fighting construction of the proposed Pilgrim Pipeline, a dual, 178-mile petroleum pipeline that would carry crude oil from a rail terminal in Albany, N.Y., southward to a refinery in Linden, N.J., and refined products back to Albany. The pipeline would replace Hudson River barges, which now move most of those products.

As a petroleum pipeline, the Pilgrim project is not subject to approval by FERC.

More: *The Record*

OHIO

State Reports Record Oil and Gas Production

Shale wells in the state produced record amounts of oil and natural gas in the second quarter of this year, the state Department of Natural Resources reported last week.

The state reported that more than 10 million barrels of oil and 405 billion cubic feet of natural gas were produced. During the same period in 2014, wells produced about 4.4 million barrels of oil and 156 billion cubic feet of natural gas.

More: *WKYC*

PENNSYLVANIA

Clean Air Council Suing Sunoco Over Eminent Domain Use

The environmental group Clean Air Council is suing the developers of a planned 350-mile natural gas liquids pipeline in the state in an attempt to block it from invoking eminent domain to gain access to properties owned by uncooperative landowners.

The group argues that Sunoco Logistics Partners, developers of the planned Mariner East 2 pipeline, is not a public utility corporation and cannot invoke eminent domain. But the Public Utility Commission has ruled that the partnership's subsidiary, Sunoco Pipeline, is a public utility, which Sunoco maintains gives it the authority to acquire easements through eminent domain.

More: *StateImpact*

DC Halts Exelon's Acquisition of Pepco Holdings; Pepco Stock Tumbles

Continued from page 1

as a whole … we conclude that the joint applicants have not met their burden of persuading this commission that the proposed merger is in the public interest," the three-member PSC said.

Upon the news, PHI shares dropped more than 18%, and Exelon stock dipped more than 3%.

Exelon and PHI have 30 days to ask the commission to reconsider its 181-page order. The companies on Monday released a joint statement, saying they would continue working to complete the merger.

"We remain convinced the decision fails to recognize the substantial immediate and long-term benefits of our merger proposal to citizens, businesses and communities in the District of Columbia," the companies said. "We want to deliver these benefits to customers and will strive to make that happen."

Some analysts, however, are pessimistic about the deal succeeding. "While none of the negative items cited by the PSC in their order are glaring hurdles that could not be overcome, the magnitude of 'small cuts' appears in our view to suggest a deeper mistrust between the commission and Exelon," UBS Global Research said.

Following their initial fall, the companies' stock prices remained steady over the week, and Monday's statement did little amid another bad day on Wall Street: Exelon closed at $30.75/share, down 2% on the day, while Pepco closed at $22.98/share, a less than 1% drop.

7 Factors of Public Interest

The PSC called the rejection "one of the most significant decisions" it would ever make, noting, "This proceeding has generated more interest and more active participation by parties and interested persons than any other proceeding in the commission's more than a century of operations."

The commission said it weighed the proposal on seven factors of public interest, among them the effects on ratepayers and shareholders, market competition and preservation of natural resources and the environment.

"The public policy of the district is that the local electric company should focus solely on providing safe, reliable and affordable distribution service to district residences, businesses and institutions," Chairwoman Betty Ann Kane said. "The evidence in the record is that the sale and change in control proposed in the merger would move us in the opposite direction."

Commissioner Joanne Doddy Fort concurred, saying, "The proposed merger would diminish Pepco's ability to directly raise issues that address the needs of district ratepayers."

Commissioner Willie Phillips voted to reject the merger application, but he dissented in a secondary vote to issue the actual order.

He agreed the proposed merger was a "bad deal" for the district, but said, "I am disappointed in the loss of the many opportunities inherent in the proposed merger that could have achieved benefits — tangible benefits — for our local communities and across the region."

Surprise: Md. Wasn't Biggest Obstacle

When Exelon proposed the deal 16 months ago, analysts predicted Maryland would be its biggest stumbling block. But after months of securing strategic alliances, Exelon won that commission's 3-2 approval — albeit with 46 conditions. (See *How Exelon Won Over Maryland*.)

Meanwhile, in the district, opposition steadily stiffened. More than half of the Advisory Neighborhood Commissions and nearly half

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DC Halts Exelon's Acquisition of Pepco Holdings; Pepco Stock Tumbles

Continued from page 20

of the 12-member City Council opposed the deal. The Office of People's Counsel and the attorney general's office also advised against approval without significant concessions. (See *Deadline Looms for Decisions in Exelon-Pepco Deal*.)

As Kane read the commission's summary of the order, there was a murmur in the room, as those attending the meeting realized that the commission was siding against the merger.

Many in attendance said they were surprised by the ruling, as they were prepared for the commission to approve the deal with concessions similar to other jurisdictions, such as Maryland.

"Honestly, I was pleasantly shocked. I commend them for their courageousness," People's Counsel Sandra Mattavous-Frye said of the commissioners. "It will have a domino effect on the entire proposal. The joint applicants have said they cannot go forward without D.C.

"The commission listened to the parties and, more importantly, they looked at the record," she said, noting, "The applicants had the opportunity to supplement the record. They, too, heard the concerns being raised and chose not to address them."

"I'm stunned," said Anya Schoolman, executive director of DC Solar United Neighborhoods, a local solar power advocacy group. "I think … the commonly accepted wisdom was that they would approve it with conditions. And we were waiting to see how stringent those conditions would be."

"I would almost go to say I'm shocked, because I fully expected that … the commission could have possibly come out in favor of the merger," said D.C. Councilwoman Mary Cheh, who led the opposition in the district's legislature.

"I'm just happy for the people of the District of Columbia," she said. "The real beneficiaries of this, had this gone through, would have been the officers and the shareholders of Pepco and Exelon Corp. The people who would have been harmed are the ratepayers."

"It was somewhat of a shocker that all other jurisdictions did in fact support this merger," said D.C. Councilman Vincent Orange, who said he has remained neutral throughout the process. "At the end of the day, the Public Service Commission has ruled, and we'll have to live with it and move on."

Power DC, which had organized opposition,

D.C. Councilwoman Mary Cheh (left) and D.C. People's Counsel Sandra Mattavous-Frye celebrate the ruling. Cheh led the opposition to the deal in the district's legislature. © *RTO Insider*

said it was glad the PSC had "followed the will of the district's electric customers."

"The proposed acquisition would have been a substantial step backwards in the district's efforts to move toward more sustainable electricity generation and greater reliance on local, renewable energy. It would have exposed D.C. residents and businesses to the risk of steeply rising electricity bills.

"Pepco has always affirmed its capability to provide a high level of service for its customers without this merger, and it has demonstrated a much greater willingness than Exelon to integrate new, customer-centered technologies."

Mattavous-Frye called the win a "David and Goliath" scenario.

"I want to commend the public participation," she said. "This was about consumer empowerment. People did not think their participation would be meaningful, and it is."

Other Jurisdictions Approved Deal

The deal had been more than a year in the making. All of the other affected jurisdictions had approved it: Virginia, Maryland, Delaware, New Jersey and FERC.

Dave Bonar, Delaware's Public Advocate, said the decision was a disappointment, but that it "doesn't mean the deal is not salvageable."

"They could appeal, or they could make more concessions," he said. "Or they could just fold their tent and go back to Chicago."

He said those who worked on getting Exelon's concessions and reaching consensus were "disappointed."

"We worked very hard to get this done," Bonar said.

Critics in Md. Pleased

Mike Tidwell, director of the Chesapeake Climate Action Network, a group that intervened before the PSC in Maryland against the proposed merger, called the decision a "major victory" for the growth of clean energy across the region.

"One good idea that emerged from the proposed Exelon-Pepco (merger) was to create a PSC-guided process to explore 'performance-based ratemaking.' Utilities should be rewarded based on how well they perform on energy improvements that enhance our economy and reduce carbon emissions and climate change," he said. "Hopefully, we can now move on to these solutions."

Paula M. Carmody, People's Counsel for the State of Maryland, had urged the state commission to reject the deal.

Last week, she said of its D.C. counterpart, "I think they got it right.

"They hit on the very issues identified in the proceeding before the Maryland commission," she said, noting that the D.C. group had concerns about the "loss of local influence" over a utility with headquarters in Chicago.

Carmody, whose organization has one of three appeals pending before the Maryland commission, said she is not sure if the district's decision is a death knell for the merger, "but clearly they can't close" the deal as it stands now.

"It depends on what the companies do now," she said. "They could appeal, they could file for reconsideration." But, she said, the rejection makes the acquisition "problematic."

A Win for Consumers, Environment

Roger Berliner, an attorney and Montgomery County councilman who had led that area's opposition, applauded the D.C. PSC for standing up for consumers and the environment.

"As the testimony of countless expert witnesses made clear, Exelon has shown time and time again its interest in favoring its own nuclear generation holdings over renewable technologies like solar and wind, and the merger does far too little to provide benefits to ratepayers, while Pepco's shareholders stand to benefit tremendously."

The acquisition would have created the Mid-Atlantic's largest electric and gas utility — and the country's largest utility by customer count. Exelon has said the deal would boost its customer base to nearly 9.8 million from 7.8 million and increase its rate base to almost $26 billion from $19 billion.

Timing of Auction Announcement Sparks Real-Time Debate

By Rich Heidorn Jr.

CAMBRIDIGE, Mass. — PJM's 2016/17 transition auction results were released shortly after the stock market closed at 4 p.m. Monday — coincidentally during an EUCI conference in Cambridge, Mass., that attracted PJM Market Monitor Joe Bowring, PJM Chief Economist Paul Sotkiewicz and Jim Wilson, a consultant to consumer advocates in PJM.

Wilson, a featured speaker, reported — critically — on the results shortly after they were released, sparking a lively debate with Sotkiewicz. Bowring, uncharacteristically, declined to offer an opinion.

"Unfortunately, the way [PJM] ran the auction, instead of paying people $10, $20, maybe $30 [per MW-day] to upgrade their capacity commitment to Capacity Performance, they created a new clearing price of $134/MW-day, paid to everybody," Wilson said.

"Of the 95,000 MW that cleared, almost all of it was in the RTO region and not in [MAAC], and they were able to go from $60 their previous clearing to $134. They basically get a $60 windfall — or about $1.7 billion," Wilson said, concluding: "Very inefficient."

That sparked a response from Sotkiewicz, who had appeared on an earlier panel with Bowring — both of them already aware of the results but sworn to secrecy until their release.

Sotkiewicz said that during the January 2014 polar vortex, "a lot of [the high generator outages were] coal resources in the west, gas generators in the west who were behind the [local distribution company] city gate who had no firm transportation to the city gate. Even if they did, they could be curtailed by the LDC. [They] also didn't have dual-fuel capability.

"So, quite to the contrary, a lot of the problems that we did see were in the west during January. So to say that [the CP acquired was] in the west and it's useless I think is disingenuous and incorrect."

Asked for his opinion on the "efficiency" of the auction after the conference ended, Bowring seemed uncharacteristically tongue-tied, pausing and exchanging glances with Sotkiewicz.

"We'll be doing a report on it fairly soon and have a detailed analysis," he said finally. "It's hard to tell just looking at the prices. We reviewed the outcome. The outcome was consistent with the rules."

PJM 2016/17 Transition Auction Clears at $134/MW-day

Continued from page 5

The Base Residual Auction for the delivery year — held in 2013, before the introduction of the tougher CP requirements — cleared at prices ranging from $59 to $119/MW-day in most of PJM, with the PSEG locational deliverability area at $219. (See Capacity Auction: New Generation, Imports Up, Prices, DR Down.)

FERC had ruled that the transition auctions would not be just and reasonable without permitting DR and energy efficiency to participate. (See *FERC Orders PJM to Include DR, EE in Transition Auctions*.)

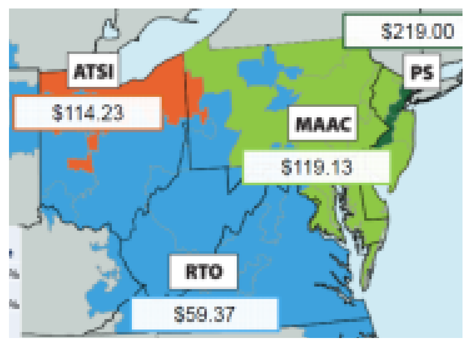
Bresler said 619 MW of DR cleared the auction, of which 227 MW represented a new commitment. All 949 MW of energy efficiency offered cleared, including 423 MW of new resources.

Under the rules of the transition auctions, participation is optional, and market participants may offer all or part of resources that were committed under the Base Residual Auctions for those years as Capacity Performance resources.

The parameters of the transition auctions differ in three aspects, Bresler said: There were no locational constraints modeled; the target was 60%, not 100%, of the reliability requirement; and a price cap was implemented that was calculated to be 50% of the net cost of new entry.

The incremental cost of the transition auction was $2.3 billion, slightly below the estimate of $2.5 billion to $3.6 billion PJM and the Market Monitor had predicted, Bresler said.

Bresler sought to counter news reports that the new Capacity Performance auctions would greatly increase consumers' power bills, noting that CP costs make up about 15% to 20% of energy bills, and that energy payments are expected to be lower because the new construct will result in better resource availability during times of extreme weather and grid stress.



Results of original BRA in 2013. *Source: PJM*

Breaking down cleared megawatts of capacity by generation source, coal cleared 32,622.3; gas 29,629.4; and nuclear 26,099.8.

The RTO's first Base Residual Auction under its new Capacity Performance rules, the results of which were released Aug. 21, saw prices rise 37% to $164.77/MW-day in most of the RTO, while the ComEd zone broke out at $215 and Eastern MAAC hit $225.42.

The construct allows capacity resources to receive higher prices in exchange for taking on more responsibilities and stiffer penalties for non-performance.

Capacity Performance resources, which represented more than 80% of capacity acquired in the BRA, were priced at a $15/MW-day premium to base capacity in most of the RTO. In the winter-peaking PPL LDA, the premium was $90. (See *PJM Capacity Prices Up 37% to $165 /MW-day*.)

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