

ELCON REPORT

ELECTRICITY CONSUMERS RESOURCE COUNCIL

Number Three

2010

IN THIS ISSUE...

- **ELCON gives FERC “thumbs up” on demand response**
- **General Motors back in ELCON fold**
- **High energy prices drives away manufacturers**
- **Who pays for new transmission?**
- **FERC values consumers’ views**
- **Which way does the wind blow?**
- **Grid subject to cyber threats**

ELCON SUPPORTS FERC ON DEMAND RESPONSE

In response to FERC’s Notice of Proposed Rulemaking (NOPR) on Demand Response, ELCON filed comments “unequivocally” supporting the proposal and calling it a “significant contribution to the increased competitiveness of organized energy markets.”

“The potential for Demand Response has yet to be fully realized,” stated ELCON President John Anderson. “One of the biggest barriers has been the reluctance of

the Organized Markets to implement rules that allow large and small consumers to be fairly compensated for reducing their consumption of electricity. FERC’s Proposed Rule recognizes that demand response can occur in two ways. First, customers can reduce their demand by responding to dynamic rates that are based on wholesale prices or, second, customers can provide demand response that acts as a resource in wholesale markets to balance supply and demand, such as that addressed by the FERC NOPR.”

ELCON’s comments supported several features of the FERC NOPR.

ELCON asserted that the locational marginal price (LMP) is indeed the correct price signal for Demand Response resources. As ELCON’s filing stated, FERC’s rule correctly stipulates that the LMP should become “the basis for compensation for all resources that dispatched in either the day-ahead or real-time market.”

The comments also agreed with FERC’s proposal that Demand Response providers should receive the LMP at all times. Per ELCON’s comments, the “exercise of market power by generators is not just a peak period phenomenon” and “consumers are entitled to full market efficiencies in all hours.”

“The most efficient kilowatt hour is the kilowatt hour never consumed,” explained

Anderson. “This Proposed Rule, which is consistent with what ELCON has been recommending for years, will increase the efficiency of our electricity system, provide large and small consumers with lower prices, and provide significant environmental benefits.”

GM RE-JOINS ELCON

General Motors, America’s largest automaker, has re-joined ELCON after a brief absence. GM, headquartered in Detroit, employs 205,000 people and does business in 157 countries.

“General Motors has been an active ELCON member throughout our organization’s history,” said ELCON President John Anderson. “The economic times have affected different companies in different ways. We are pleased to have GM back in the fold.”



In addition, Anderson discussed how allocating costs for electricity infrastructure improvements can impact electricity costs. Should those who benefit bear the burden of increased costs, or should “costs be socialized across all customers and customer

ANDERSON ANALYZES ENERGY PRICES IN RECESSION

“Unnecessary energy price increases may bring both job losses and environmental harm,” asserted ELCON President John Anderson at a conference sponsored by the Mid-America Regulatory Commissioners in Kansas City.

By way of illustration, Anderson looked at proposed improvements for the electricity infrastructure. He emphasized that although significant – and costly – improvements have been proposed, “consumers have not yet seen the evidence that they are truly needed.” He specifically questioned whether the expenditures for a “Smart Grid” will bring any consumer benefits, stating that such benefits “may” exist, but consumers need to be convinced.

classes?” he asked. In his view, “socialization is appropriate only if everyone benefits equally,” but it is “never justified if the degree of benefits is unknown or cannot be reasonably estimated.”

Given the recession and the ability of many manufacturers to move primary operations overseas in search of lower operating expenses, Anderson urged the commissioners to “scrutinize carefully all proposals” and to seek a “least cost” solution or run the risk of losing manufacturing facilities to lower cost locations.

NEW TRANSMISSION NEEDED – BUT WHO WILL PAY FOR IT?

Recently appointed FERC Commissioner John Norris was emphatic when he declared that “we are going to need new transmission” because, simply put, “too much is decades old.”



FERC Commissioner John Norris at the ELCON Members Only Workshop

Speaking to ELCON’s Spring Workshop in Washington, Norris acknowledged that simply recognizing the need for new transmission will not get it built. Cost allocation is “crucial,” he said, adding that he expected FERC to address the issue through a Notice of Proposed Rulemaking later this year.

John Flynn, American Electric Power’s Managing Director for Transmission Strategy and Business Development, agreed with the Commissioner, adding that “transmission does not get built overnight.” He added that anticipated congressional action on renewable fuel use was an important factor in determining transmission policy. “We need to relate

transmission policy to increasing renewable energy and using less CO₂,” he explained. But, without knowing all future requirements, he said, it was difficult to plan.

Warren Frost, the former vice president for operations and reliability for the Alberta Electric System Operator, pointed out that in his experience wind can supply up to 20 percent of the power for a region, but that adding wind usually requires new transmission. And, he, too, raised the issue of cost, agreeing that the allocation issue for new transmission is paramount.

Flynn’s employer, AEP, is a strong proponent of building 765 kilovolt (kV) transmission lines, rather than the more conventional 365 kV. “There’s a lot less line loss with 765 than with 365,” he noted, adding that a utility that spends “smartly on new transmission can mitigate price increases or even provide lower prices.”

With regard to cost allocation, Flynn favored a more socialized approach. “You can’t identify beneficiaries at a granular level,” he stated, “because it will change over time.”

That assertion was disputed by Bruce Edelson of the Coalition for Fair Transmission Policy, who said that the “job of regulators is to allocate costs.” He observed that the question of who benefits from new transmission is one that’s “made all the time” by federal and state regulators.

Edelson believes that socializing transmission costs masks price signals and leads to poor decision making by transmission owners. He supported the so-called Corker amendment to the legislation (S 1462) approved by the Senate Energy Committee last year because it requires a “measurable standard” in allocating transmission costs, but does “not mandate mathematical precision.”

CONSUMER VIEWS IMPORTANT

FERC Commissioner John Norris told ELCON's Spring Workshop that, before he casts a vote at the Commission, he asks himself to complete the sentence "this decision benefits the consumer because..."

And he was quick to add that finding the lowest price is not the sole determinant of what best benefits consumers.

There are several issues now before FERC where he thought that determining potential consumer benefits was especially important. He believed that development of a "Smart Grid" provided lots of opportunities, but also lots of costs. It is imperative, he thought, that providers of a Smart Grid "must show benefits to consumers."

Similarly, Norris was clearly aware of consumer discontent with the RTOs and ISOs. He added that these so-called "Organized Markets" were "beyond infancy," though he thought they were "still evolving." It was important, he said, to get consumers appropriate information on the Markets to "measure their effectiveness."

DELIVERING WIND POWER PRESENTS CHALLENGES

If significant reductions in carbon emissions are to be achieved in the near future, the impact on electricity generation and transmission will be significant.

In fact, as Warren Frost, formerly with the Alberta Electric System Operator, stated at



ACES's Jeff Walker discussing the congressional debate over derivatives markets

Jeffrey Walker, senior vice president and chief risk officer of ACES Power Marketing, a consulting firm primarily serving the rural cooperative community, added that the current congressional debate over derivatives markets could also affect consumers. Stating that energy transactions account for less than one percent of the derivatives market, he asserted that forcing all energy contracts to be handled by an exchange, rather than over the counter, would harm consumers. "One size fits all hurts end use consumers," he claimed, because less hedging means the additional volatility will be borne by consumers.

ELCON's Spring Workshop, increased use of renewable energy "will fundamentally change how the system is planned, operated, and used." This viewpoint was echoed by John Flynn, transmission guru for American Electric Power, who said that it is essential that "transmission planning needs to include increased renewables and decreased CO₂."

Frost, who has significant experience in integrating power from renewable sources into the generation mix, noted that “wind blows in off-peak hours” and that the supply of electricity from wind has “little correlation with demand.”



Warren Frost describing the difficulties of integrating variable generation

He explained that the biggest operating challenge to integrating wind-generated power is “ramping” – the sudden increase or decrease of wind power availability which cannot be precisely forecast. That is one reason he said that “improved forecasting” is necessary to integrate wind power successfully. His advice to legislators who are seeking to mandate precise levels of renewable power is to “give yourself some wiggle room.” But he said that, with appropriate planning, providing up to 20 percent of power from wind sources was “feasible.” That total would be far in excess of the Administration’s target, which FERC Commissioner John Norris said was to double the amount of renewables now being used.

The objective of increasing renewable power as a means of combating climate change and global warming was belittled by Kenneth Green, resident scholar at the American Enterprise Institute. He charged that a cap-and-trade approach to reducing carbon is a “wonderful idea for the right kind of pollutant,” but not good for carbon and other greenhouse gases. He also dismissed the idea of building the equipment to produce renewable energy in the United States, citing “high labor costs.” That equipment, he asserted, will most likely be manufactured in China.

CYBER THREAT TO GRID “IS REAL”

The potential for hacking into the interstate transmission system “is real,” stated Joe McClelland, director of FERC’s office of electric reliability. And, he said, Congress needs to pass appropriate legislation.

Speaking to ELCON’s Spring Workshop, McClelland recounted how former FERC Chairman Joe Kelliher identified a

“regulatory gap” in that no federal department or agency had authority to act in the event of a perceived cyber threat to the interstate grid.

The North American Electric Reliability Corporation (NERC), which sets reliability standards for the grid, was not appropriate for this responsibility, said McClelland, because its processes are too inclusive and therefore too slow. In addition, he asserted that NERC, a non-governmental entity, is “not responsive to FERC” which he said was “not acceptable for national security.”



Joe McClelland, director of FERC's office of electric reliability, sharing with the ELCON membership concerns over cyber threats

He based this claim on the fact that, in standard-setting process, FERC must approve all NERC standards. On 56 occasions, said McClelland, FERC has issued a directive to NERC to modify a particular standard, and NERC has not taken any follow-up action. If NERC is to play a role in determining how to respond to potential cyber attacks, he stated, "NERC must determine how to comply" with FERC directives. That is why FERC has directed NERC to re-write its Rules of Procedure.

For information on ELCON:

**The Electricity Consumers Resource
Council
1111 19th Street, NW, Suite 700
Washington, DC 20036
202-682-1390
www.elcon.org**

