

ELCON REPORT

ELECTRICITY CONSUMERS RESOURCE COUNCIL

Number One

2012

IN THIS ISSUE...

- Commissioner LaFleur Outlines her Views (Page 1)
- What Industrial Electricity Users Fear in Future Markets (Page 3)
- NERC's New BES Definition (Page 3)
- FERC, NERC and Grid Reliability – ELCON's Views (Page 4)
- Concerns Continue Over Capacity Markets (Page 4)
- Cyber Security of Concern to Industry Stakeholders (Page 5)
- Congress Takes Pass on Energy Legislation, at Least For Now (Page 5)

LA FLEUR CALLS FOR CUSTOMER FOCUS

FERC Commissioner Cheryl LaFleur believes that the primary focus of FERC policies should be “how they affect real customers.”

Speaking to ELCON's Fall Workshop in Chicago, LaFleur emphasized that each issue FERC considers has three basic components – reliability, cost, and the impact on the environment.

She believes that the reliability issue is being handled “pretty well” by the North American Electric Reliability Corporation (NERC), though she admitted that FERC may sometimes “overload” NERC with a series of directives.

She thought that the new availability of shale gas would be a significant driver in keeping electricity prices stable. Twenty years ago, she noted, many feared that we would run out of natural gas. With the discovery of shale gas



Commissioner LaFleur

in a number of regions, she estimated that we now have “one hundred-plus years of supply.” And she highlighted the problems of adding new renewable energy sources into the electricity system – “how do you integrate it into a system built for something else entirely,” she asked.

Commissioner LaFleur also addressed transmission issues, couching her comments in the context of FERC’s recently issued Order 1000. She observed that the Order requires Regional Transmission Planning which she thought would lead to a more orderly expansion of the transmission grid. Although she believed there were numerous unanswered questions – such as who is going to build it and who is going to pay for it – she asserted that the nation is presently “underinvested” in high voltage transmission and “we need transmission to make the market work.”

Similar views were voiced by Kevin Gunn, chairman of the Missouri Public Service Commission. Gunn is serving as chair of the Eastern Interconnection



Chairman Gunn

Planning Collaborative (EIPC) which is examining how the eastern grid will operate in the future. He stated that the premise of the EIPC exercise was that the “electric delivery system has not kept pace with today’s demand for electricity.” He said that the Collaborative was analyzing “80 transmission scenario options” including such factors as renewables, nuclear energy, and emerging technologies, before making any recommendations.

Tim Gallagher, President and CEO of Reliability First Corporation (RFC), the NERC regional entity (RE) covering much of the Midwest, also addressed the Workshop.

He outlined what criteria RFC was using in putting entities on the NERC Compliance Registry and what facilities could expect to be listed. He maintained that the goal “was not to capture a whole bunch of industrial customers” and that the RFC was looking for generators over 100 KV which were “material” to the reliability of the grid.



He added that RFC President Tim Gallagher even the 100 KV threshold was not immutable, and it would “not apply to self-suppliers behind the meter.” As a result, he said, only one industrial facility is included on the Registry in the RCF, in contrast to other REs.

Other speakers at the Workshop included Jeff Webb of MISO and Steven Transeth of Transeth and Associates, who discussed MISO’s transmission cost allocation scheme for multivalued projects; Michael Robinson, also of MISO, who addressed demand response in the Midwest; and Ezra Hausman of Synapse Energy Economics, Inc., who talked about why capacity markets did not fulfill the purpose for which they were intended

Copies of most of the presentations are available from ELCON.

HOW INDUSTRIAL ELECTRICITY CUSTOMERS WILL COPE WITH THE FUTURE

ELCON President John Anderson said that industrial electricity users look at the panoply of pending and proposed rules put forth by the Environmental Protection Agency and “have trouble sleeping at night.”



Speaking to the Annual Meeting of the Council of Industrial Boiler Owners (CIBO), Anderson referred to the

National Air Quality Standard relating to ozone, the Cross State Air Pollution Rules restricting emission of SO₂ and NO_x, the Coal Ash rule, and the rules requiring Maximum Achievable Control Technology (MACT) limiting mercury and other heavy metal emissions from utility and industrial boilers.

The rules will have both “direct and indirect impacts” on manufacturing facilities since they will force modifications in the facilities themselves and likely increase each utility’s cost of generating electricity, a cost that will then be passed on to consumers. Anderson cited several studies, including one by the North American Electric Reliability Corporation (NERC), estimating that between 441 and 761 generating units would be “economically vulnerable for accelerated retirement” by 2018 due to restrictions on coal use. He also noted that the National Association of Manufacturers had concluded that the proposed EPA rules would reduce the nation’s Gross Domestic Product by \$676.8 billion by 2020 and cause a job loss of 7.3 million.

“We all struggle with how to make policymakers more aware of the impact on manufacturers,” he stated, adding that regulators and law makers too often ignore

communications from manufacturers because they are seeking other objectives.

NERC CHANGING BULK ELECTRIC SYSTEM DEFINITION

The North American Electric Reliability Corporation (NERC) has formed a drafting team to revise the definition of the “Bulk Electric System,” and ELCON is actively involved in the effort.

John Hughes, ELCON’s vice president for technical affairs, is serving on the NERC drafting team as a representative of large industrial users. He said that “the primary objective, from ELCON’s perspective, is to ensure that industrial cogenerators, or QFs and other industrial facilities, are not included in the BES definition.” Entities listed as part of the BES could then be included on NERC’s Compliance Registry and subject to NERC’s reliability standards.

To date, he stated, “we have managed to capture the generator size thresholds in the Statement of Compliance Registry Criteria, which is the governing document that establishes the criteria by which entities become registered.”

Phase II of the BES effort will begin in January. According to Hughes, the BES drafting team will consider the generator size thresholds that may later trigger changes to the Statement of Compliance Registry Criteria.

ELCON RELATES RELIABILITY CONCERNS TO FERC

ELCON President John Anderson was invited to participate in FERC's Technical Conference on reliability issues, and expressed ELCON's support for an Electric Reliability Organization that is "fair, balanced and inclusive."



Anderson noted that NERC's accomplishments to date "have been commendable, especially given the tremendous work load that FERC has required of NERC." He cited the 655 directives which FERC has issued related to NERC reliability standards since 2007. Anderson praised the NERC's standards development process as "quite good" and observed that "NERC has diligently addressed the numerous FERC directives."

Many ELCON members are subject to at least some of NERC's standards due to behind-the-meter generation and/or ownership of transmission lines. Anderson reported that "these companies often inform us that they are overwhelmed with mounds of demands for documentation and other requirements," all at a considerable expenditure of both money and staff time. He questioned whether NERC was prioritizing its enforcement appropriately, stating that "all too often it seems that relatively minor violations, e.g., 'document only' type violations, are treated equal to high-risk impact findings and there is overly zealous enforcement."

Therefore, he suggested that NERC "be required to explore steps to reduce burdens on stakeholders while focusing on the issues that are more critical to BES reliability."

FERC's role, he said, is to "ensure that it gets done in a cost-effective manner."

Anderson concluded his prepared comments by asking that

NERC be given time to "catch up" which could best be accomplished by FERC "reducing the number of directives or mandates to a bare minimum for the near term."



ELCON CONTINUES WORKING WITH APPA ON MARKET REFORM

ELCON continues its participation in the Electric Market Reform Initiative (EMRI) coordinated by the American Public Power Association (APPA). EMRI has long questioned the effectiveness of capacity markets. Marc Yacker, ELCON's vice president for government and public affairs who represents ELCON in the EMRI, stated that "several studies have shown that capacity markets that are operational in the organized markets tend to reward generators at the expense of consumers – but they do not incent new generation as intended."



In addition to municipal utilities, other participants in the EMRI include many consumer advocates, state industrial groups, and transmission-dependent utilities.

ELCON JOINS OTHER MAJOR STAKEHOLDERS ON CYBER SECURITY

ELCON joined with other major electricity industry Stakeholders in urging FERC to approve a NERC proposal to protect the electricity grid from cyber threats.

That proposal, known as “Version 4,” is part of NERC’s ongoing Critical Infrastructure Protection (CIP) program. Some have questioned whether FERC should approve Version 4, given that a new proposal (not surprisingly, known as “Version 5”) is being drafted and will be presented to FERC for its approval sometime in the near future.

The Stakeholders countered, stating that Version 4 will “increase the number assets that will be covered by the mandatory NERC reliability standards,” adding that “Version 4 implementation will require a significantly greater number of operations control centers, transmission substations, and large baseload generation stations to be identified as Critical Assets covered by NERC’s CIP standards.”

While recognizing that additional reliability standards, such as those likely to be included in Version 5, may be needed, the Stakeholders requested “that the Commission not seek to adjust or revise the proposal or implementation of Version 4.”

Other Stakeholders joining in the FERC filing were the Edison Electric Institute, the American Public Power Association, the National Rural Electric Cooperative Association, the Transmission Access Policy Study Group, and the Electric Power Supply Association.

CONGRESS SKIPS ENERGY ISSUES AND ENDS FIRST SESSION

The first session of the 112th Congress has ended, and Members left Washington without enacting any substantive energy-related legislation.

The House of Representatives, under Republican control, passed a series of bills directly and indirectly attempting to restrict the

Environmental Protection Agency from implementing and/or enforcing numerous rules and regulations. Many of those EPA proposals would affect electricity generators and industrial boilers and raise costs for manufacturers. However, the Democratic-controlled Senate did not approve any of the House-passed bills, and it is unlikely to do so in 2012. In addition, the House approved several bills designed to expedite exploration and production of oil and natural gas from on and off-shore sources which were also not considered by the Senate.

The Senate Energy Committee approved a panoply of energy efficiency bills, including an omnibus measure (S 1000) proposed by Sens. Jeanne Shaheen (D-NH) and Rob Portman (R-OH) which focuses primarily on buildings and appliances. However, Majority Leader Harry Reid (D-NV) has been reluctant to schedule any of the energy bills, primarily because he fears that Republicans would offer anti-EPA amendments that might succeed. Sen. Reid has promised on several occasions to bring an “energy bill” (sometimes couched as an “energy jobs bill”) to the Senate floor, but he has not yet definitively identified the legislation he would support nor has he announced a firm date for Senate consideration.



One energy issue – expedited permitting for the construction of the Keystone XL pipeline to bring tar sand oil from Canada to the Gulf of Mexico – crept onto the front pages at the end of the first session. When the Administration tried to push the final decision making for the pipeline to late 2012 (after the November election), Republicans jumped on the issue and added language requiring an expedited decision as an amendment to the payroll tax cut bill. Upon passage of that bill, the permit will be considered approved in two months unless the President finds to the contrary in “the national interest.”

Next year’s election may well push congressional leaders into finding a bipartisan approach to energy issues. Some observers have suggested that the energy efficiency issues being espoused by many Democrats could be coupled with Republican-backed language to expedite the production of domestic oil and natural gas. But such an effort, if it gains real traction, is likely later in the next session rather than earlier.

###

The Electricity Consumers Resource Council (ELCON) is the national association representing large industrial users of electricity. It was created in 1976 as the federal government began to address electricity issues and industrial users realized that they could advocate policy in a more constructive manner by forming a united front. At the same time, industrial users hoped to create a technical resource for useful data and information that could be shared by member companies.



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