ELCON REPORT

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ELCON Presses FERC for Action on Large Cogeneration Units

In response to a Notice of Proposed Rulemaking at FERC, ELCON filed comments asking that the Commission "promptly take further action to facilitate interconnection by CHP and similar larger units."

ELCON President John Anderson explained that "in its NOPR on Small Generator Interconnection Procedures, FERC is attempting to remove barriers facing smaller cogenerators in order to increase their CHP production. But about two-thirds of cogenerated power comes from facilities of greater than 100 MW. These units also face marketplace barriers, and we hope FERC will address those issues I the future."

Among ELCON's suggestions is for "FERC to initiate a Notice of Inquiry" to "identify existing barriers to the development of large CHP projects." ELCON urged FERC to hold a Technical Conference where "FERC could seek to identify solutions and policies as well as highlight barriers outside of its control that impeded the goals of the President's Executive Order to promote CHP projects."

ELCON was joined in the comments by the American Chemistry Council, the American Forest & Paper Association, the American Iron and Steel Institute, the Council of

Industrial Boiler Owners, and the Combined Heat and Power Association.

In related activity, ELCON's Vice President for Government and Public Affairs, Marc Yacker, spoke to the Combined Heat and Power Association's Spring Meeting. He pointed out that FERC has not addressed interconnection rules for large cogenerators since 2003. He added that FERC threw the CHP community "a curve ball" in its interpretation of language in the Energy Policy Act of 2005. "EPAct said that the PURPA obligation of utilities to purchase cogenerated power could be waived when it was demonstrated that there were competitive wholesale markets," Yacker stated. "FERC decided that any 'organized market,' by definition, was a competitive market and that therefore utilities in those regions were not obligated to purchase power from cogenerators. That ruling was not what the congressional drafters had intended, and it has had a chilling effect on the development of CHP in those regions."

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Commissioner LaFleur

Workshop Provides Overview of New Challenges in Electricity Markets

ELCON's Spring Workshop featured a host of speakers outlining the numerous changes underway in electricity markets.

The Members-Only event began with FERC Commissioner Cheryl LaFleur who spoke on several topics, including how to protect the electricity grid from cyber attacks. Noting that "FERC is not new to cyber," she asserted that every part of the electricity system "needs some level of cyber protection."

Elise Caplan (left) and Bill Massey (right)

Former FERC Chairman Bill Massey and Elise Caplan, manager of the American Public Power Association's Electric Market Reform Initiative, debated the merits of today's Organized Markets for wholesale electricity sales. Massey stated that "wholesale prices are at their lowest level in a decade" and that the markets are good coordinators of Demand Response, adding that "DR keeps prices down." Caplan noted that the Organized Markets were especially good for merchant generators, citing their high returns on equity in PJM compared with generators in regulated markets, but not necessarily good for customers. She also said that, despite earlier predictions, studies have not shown that locational marginal pricing, used in PJM and elsewhere, has resulted in any new generation.

Nicholas Bianco

The question of how to reduce greenhouse gas emissions (GHGs) using existing authorities was discussed by Nicholas Bianco from the World Resources Institute. He concluded that several federal departments and agencies, notably the Environmental Protection

Agency, the Department of Energy, the Department of Transportation, and the Federal Aviation Administration, all have statutory authority to reduce emissions. He said the focus should be on the power industry which is responsible for roughly one-third of GHG emissions, and he predicted "deeper reductions" in those emissions over the next decade.

Fred Gorbet, chairman of NERC's Board of Trustees, returned to the topic of the new definition of the Bulk Electric System (Gorbet had been an observer at the previous day's Seminar, which had been devoted entirely to the BES re-write). He admitted that the new definition would provoke "lots of unintended consequences and "we at NERC have to do a better job of being granular." He offered some hope to the attendees dissatisfied with the BES definition, saying "it ain't over till it's over."

Fred Gorbet. Chairman of NERC's Board of Trustees (left) with ELCON Members Mike Miller (Shell) and Bill Smith (Air Liquide)

NERC's Senior Vice President and Director of Policy and External Affairs, Janet Sena, outlined what is happening on cyber security. NERC is very pro-active, she said, explaining how the NERC's Energy Sector-Information Sharing and Analysis Center (ES-ISAC) issues reports and warnings about cyber threats telling utilities what's happening and what they can do.

NERC's Janet Sena

Katrina Pielli of the Department of Energy, the Administration's point person on combined heat and power (CHP), outlined the recently issued Executive Order designed to increase CHP generation by 40 gigawatts by 2020. The first step, she said, is to "educate the public on the benefits of CHP."

Katrina Pielli, Senior Policy Advisor, Office of Energy Efficiency and Renewable Energy, DOE

Deputy Director – Office of Energy Policy & Innovation (OEPI) at FERC Julie Simon briefed the Workshop on the status of FERC Order 1000 on transmission planning which is currently being appealed in the US District Court in Washington, DC. On the issue of cost allocation for new transmission, she stated that FERC's policy is that costs should be borne by those who benefit and, if a consumer receives no benefits from the new transmission, there should be no payment, adding that there is "no one-size-fits-all formula."

FERC's Julie Simon

Samuel A. Wolfe, Vice President, Law & Public Policy, Viridity Energy, Inc. and Eric Winkler, Project Manager, Demand Resource Qualification, ISO-New England Inc

Samuel Wolfe from Viridity Energy, Inc., and Eric Winkler from the ISO-New England concluded the Workshop with a discussion of Demand Response (DR). Winkler stated that although Demand Response is "still very nascent," it has already "transformed the landscape." He and Wolfe discussed how different markets use and measure DR in different ways. Wolfe's focus was on increasing DR from highly variable loads (e.g., electric arc furnaces in the steel industry) where there has not been much progress, though he expected more in the future.

ELCON Vice Chairman Bob Ritenuti of Dupont summed up the Workshop, stating "these are not your father's energy markets. The markets are changing, and this Workshop gave me an opportunity to learn a lot about a variety of issues – it was time well spent."

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ANDERSON FORESEES ACTIVE YEAR AT FERC

Speaking to a group of Kentucky industrial electricity users, ELCON President John Anderson outlined what he thought would be a very active year at the Federal Energy Regulatory Commission (FERC).

"There are lots of ongoing issues," explained Anderson, "and these are issues that will directly and indirectly affect what the manufacturing community pays for electricity. ELCON is really the only group representing the industrial end users at FERC, but on some issues I think we are really making progress."

Anderson began by discussing FERC Order 1000, which he said had its origin in FERC's desire to encourage wind and other renewable energy sources. "We have several concerns," he noted. "When it comes to allocating costs for new transmission, we basically believe in the 'beneficiary pays' concept. We oppose the broad socialization of these costs for new lines, and are worried about what we see as FERC's preoccupation with 'public policy' considerations."

Anderson observed that many of the same issues were involved in MISO's proposed tariff for Multi Value Projects, or "MVPs." FERC approved MISO's tariff, claiming that there was no need to explicitly weigh project costs against benefits. ELCON objected to FERC's decision and was a party in the judicial appeal in the Seventh Circuit which the court turned down.

"We have made some progress on transmission rates," he reported, citing a FERC Policy Statement to implement new criteria in determining whether incentives should be awarded to those who build new transmission. "FERC had been granting incentives to virtually anybody who built new transmission lines, even those lines that had virtually no degree of risk," asserted Anderson. Under the new policy, FERC will require an applicant to take all reasonable steps to mitigate risks and take other actions before an incentive rate of return is even considered. "When an incentive rate is justified – particularly when there is high risk – FERC should consider incentives," said Anderson. "But we have seen FERC award those incentives as a matter of course. That raises rates for all consumers. We objected, and we are glad to see that our views have had an impact on the Commission."

Anderson concluded by telling the Kentucky Industrial Users Group that "even though electricity prices are relatively low in Kentucky, you must protect your relative competitive positions through individual and vigilant actions. That is why belonging to groups like ELCON is so important."

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ELCON, Other "Trades," Support New NERC Program

ELCON joined other major electricity industry trade association in comments filed at the Federal Energy Regulatory Commission, strongly supporting "NERC's proposal to enhance FFT [NERC' Find, Fix and Track program]. The associations urged FERC "to promptly approve NERC's proposals."

The FFT program is an effort by NERC to prioritize its enforcement of standards violations, so that minor violations do not use up a disproportionate amount of NERC's time and resources. The associations view the FFT as an "important first step to ensure that the substantial resources devoted to compliance demonstration and enforcement are targeted on those matters that pose the greatest risk to the reliability of the Bulk Power System."

The filing made in spring was in response to six relatively minor improvements to the FFT proposed by NERC which needed FERC approval. In addition to expressing their support, the associations encouraged "NERC to undertake further efforts to reduce the violations backlog and refocus resources of NERC, its Regional Entities, and registered entities on activities that will enhance reliability and better align with risk."

The associations joining ELCON in the comments were the Edison Electric Institute, the American Public Power Association, the National Rural Electric Cooperative Association, the Transmission Access Policy Study Group, the Electric Power Supply Association, and the Large Public Power Council.

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Seminar Focuses on New Definition of Bulk Electric System

ELCON's Special Seminar on what manufacturers need to know about NERC's new definition of the Bulk Electric System left attendees with both a lot more knowledge and a lot more worries.

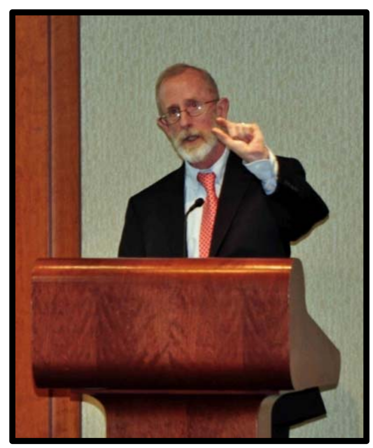
By way of background, in November 2010 the Federal Energy Regulatory Commission (FERC) issued Order 743 directing the North American Electric Reliability Corporation (NERC) to re-write its definition of the Bulk Electric System (BES) which determines the facilities subject to mandatory NERC Reliability Standards. Although by law FERC cannot write a Reliability Standard itself, in its Order it stated that the "best way" to define the BES was to use a bright-line, voltage-based BES definition.

That new BES definition, which FERC approved in December 2012 (Order 773) and reaffirmed (with minor exceptions) in April 2013 (Order 773-A), included "all Transmission Elements operated at 100 kV or higher and Real Power and Reactive Power resources connected at 100 kV or higher," though the new BES did not include "facilities used in the local distribution of electric energy." The BES definition also includes five "inclusions" for facilities not falling under the general definition and four "exclusions" for facilities not deemed part of the BES.

But as ELCON Seminar attendees learned, with regard to major manufacturing facilities – almost all of which include assets taking power at 100 kV or above – there may be more questions than answers, as ELCON members recounted numerous instances of power configurations that include elements over 100 kV, but which had never been part of the BES and, most agree, could not have an impact on grid reliability.

Left to right: Peter Heidrich of FRCC and Chairman of NERC's BES Drafting Team, Phil Tatro Senior Performance Engineer at NERC, and Susan Morris, Electrical Engineer, Office of Electric Reliability at FERC

FERC Commissioner Cheryl LaFleur tried to put industrial users at ease, stating that her objective was that "only facilities that impact the grid" should be covered. That objective was also voiced by Peter Heidrich of the Florida Reliability Coordinating Council who chaired the NERC drafting team on the BES. He stated that "we were not trying to expand or contract the applicability of the BES definition – we were just looking for clarity." But, in a separate presentation, Michael Bardee, director of FERC's Office of Electric Reliability, admitted that "what is not BES today might be under the new definition."



FERC's Director of the Office of Electric Reliabity Michael Bardee

ELCON members detailed numerous examples of facilities comprised of a substation and two incoming lines with a "looped" connection that, according to FERC Order 773, would place these industrial sites within the new BES definition. Attendees also explained how a manufacturer might own the substation, but it was almost always operated by the local utility. "We have no say in what happens there," said one attendee, while another asserted "our substation is configured to maximize reliability, but if it puts us on NERC's list, we will probably reconfigure it with the result being reduced reliability." The energy manager of one large corporation summed up the overall frustration level, telling a presenter "I just don't know how to get my hands around this."

ELCON is studying several options for its members to pursue in seeking either "exclusions" or being categorized as local distribution service by FERC. ELCON expects to meet with FERC Commissioners on this issue in the near future.

According to ELCON Chair Debbie Chance of Chevron, "Unfortunately, this issue has been off the radar screen of many industrial users. Now we have been shown a 'one-size-fits-all' solution that in fact is not a workable solution for industrials that are large electricity users. ELCON has been working hard on this issue, but, quite frankly, unless the larger industrial community engages on this important issue large industrials may face some unpleasant and costly surprises."

As a follow-up to the discussion at the Workshop, FERC in mid-May proposed that the July 1, 2013, deadline for the implementation of the new BES be postponed until July 1, 2014. ELCON President John Anderson stated that "I don't think anyone at NERC or FERC had a clear idea of the total impact that the new BES definition would have. We are pleased that NERC heard our comments and requested a delay in the effective date so everyone can have a clear idea of who would be affected and how." ELCON filed comments at FERC supporting that extension.

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