

ISO-NE capacity auction likely to hit price ceiling

ANALYSIS The stars have aligned in New England to bring about what could be the most positive capacity pricing for generators in ISO-New England in recent memory.

A timely decision from the Federal Energy Regulatory Commission and an accommodating early notice from a generator were released this week, just days before ISO-NE's planned forward capacity auction, its eighth, on February 3.

The FERC decision approved ISO-NE's request to implement a ceiling price of \$7.025/kW-month in time for the upcoming FCA 8.

Prior to the FERC approval, FCA 8 would have been the first ISO-NE auction without a floor price, which had raised the prospect among analysts that the auction would clear below the already low floor price. FCA 7, like all previous auctions, cleared at

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Blackstone may be leading race for JP Morgan unit

TRADING Last minute handicapping of who will be the likely winning bidder for JP Morgan Chase's physical commodities trading business has the private equity firm, the Blackstone Group, as the clear front runner.

The US's biggest bank by assets is selling its J.P. Morgan Ventures Energy unit that has hard assets and numerous trading books and contracts that the Wall Street firm's mergers and acquisitions unit has valued at approximately \$3.3 billion. Included in the sale are the bank's world-wide crude oil trading operations, its US and European natural gas and power trading, and its international coal and base metals trading operations.

Three firms, the Blackstone Group, the Macquarie Group and the Mercuria Energy Group, have been identified by observers,

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FERC OKs Day 2 market for SPP, with conditions

MARKETS Southwest Power Pool received conditional approval from the Federal Energy Regulatory Commission to proceed with the March 1 launch of its Day 2 market, and the conditions require another wide-ranging compliance filing by February 28.

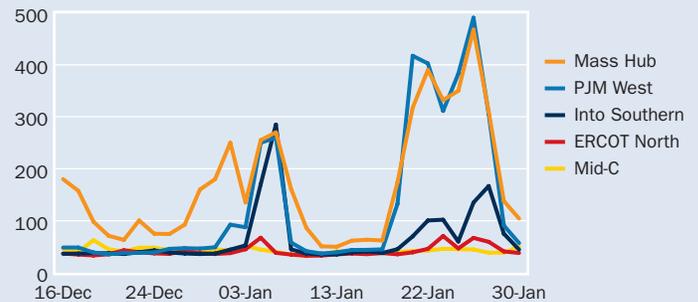
SPP's planned integrated marketplace is designed to include markets for day-ahead and real-time energy, ancillary services and transmission congestion rights, to be launched in March. Currently, SPP operates only an energy imbalance service market.

In a prepared statement issued Thursday, SPP spokesman Tom Kleckner said the FERC order "will allow SPP to 'go live' with the integrated marketplace on March 1."

"After SPP makes its final compliance filing before 'go live,' we will implement and operate the integrated marketplace in accordance with the tariff provisions already approved by FERC

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Price trends at key trading points (\$/MWh)



Source: Platts

Low and high average day-ahead LMP for Jan 31 (\$/MWh)

	On-peak low	On-peak high	Off-peak low	Off-peak high
ISONE	143.66	155.43	99.05	106.51
NYISO	55.88	113.46	36.34	86.00
PJM	49.38	70.95	34.21	75.70
MISO	44.93	60.16	32.41	45.34
ERCOT	39.50	42.02	25.02	25.20
CAISO	52.82	54.61	43.63	44.90

Note: Lows and highs for each ISO are for various hubs and zones. A full listing of average LMPs are available for the hubs and zones inside this issue.

Day-ahead bilateral indexes and spark spreads for Jan 31

	Index	Marginal heat rate	Spark spreads				
			@7k	@8k	@10k	@12k	@15k
Northeast							
Mass Hub	104.25	9819	29.93	19.31	-1.93	-23.16	-55.01
N.Y. Zone-A	82.75	14255	42.12	36.31	24.70	13.09	-4.33
PJM/MISO							
PJM West	57.00	11625	22.68	17.77	7.97	-1.84	-16.55
Indiana Hub	45.00	7752	4.37	-1.44	-13.05	-24.66	-42.08
Southeast & Central							
Southern, Into	44.50	8484	7.79	2.54	-7.95	-18.44	-34.18
ERCOT, North	38.00	7418	2.14	-2.98	-13.23	-23.47	-38.84
West							
Mid-C	38.68	7333	1.76	-3.52	-14.07	-24.62	-40.45
SP15	52.00	9774	14.76	9.44	-1.20	-11.84	-27.80

Note: All indexes are on-peak. Spark spreads are reported in (\$) and Marginal heat rates in (Btu/kWh). A full listing of bilateral indexes and marginal heat rates are inside this issue.

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The highest clearing price in this month's auction — about \$28,690/MW — was for TCCs on the path from the West zone (Zone A) in the western end of New York to the Capital zone (Zone F) in the eastern part of the state. In last month's auction, the clearing price for January TCCs was about \$23,450/MW.

— *Juliana Brint*

Dominion may see routing delay on power line

Dominion's 500-kV transmission line across the James River in Virginia could be delayed a year or more under proposed changes to the line's route, a utility official said during a hearing Thursday at the State Corporation Commission.

The SCC approved construction of the Surry-Skiffes Creek project in November, but in early January agreed to reopen the case to consider a different river crossing when Dominion said it could not come to agreement with the James City County Economic Development Authority for an easement.

Under state law, Dominion cannot use eminent domain when dealing with a government authority, according to Liz Harper, Dominion's transmission siting and permitting coordinator.

The county authority was willing to grant the easement if the landowner involved in the project agreed, but the landowner — Williamsburg Developments — would only agree to it if the transmission line were built underwater, Harper said during the hearing.

The SCC in November approved the river crossing known as Route 4 at the recommendation of its hearing examiner, who also recommended that if Route 4 was not viable, then the SCC should allow the project to follow Route 1.

Dominion in December asked the SCC to reopen the case and approve Route 1, which was its preferred route from the beginning. That route does not need approval by the James City County Economic Development Authority, Daisy Pridgen, a Dominion spokeswoman, said.

Dominion was planning an in-service date of June 1, 2015, when it applied for approval in 2012 but the earliest the crossing could be completed now is December 15, 2015, Harper said. Without having the line in service as planned, the utility would have to seek an extension to comply with the Environmental Protection Agency's Mercury and Air Toxics Standard rule, she said.

Any other alternatives would push the in-service date to September 2016 or beyond, she said.

BASF, whose property is involved with both routes, prefers a variation to Route 4 that would significantly affect the construction schedule, Harper said. The BASF alternative would put the route closer to historic resources and could delay a construction permit from the US Army Corps of Engineers, she said.

"The company is concerned about the construction schedule. If the variation of Route 4 is selected it won't be in service in 2016," Harper said. That would require a fifth year MATS extension from EPA, she said.

Such a delay also would affect reliability and require load shedding once the two coal-fired generation units at the Yorktown power plant are shut down, Harper said. "We are extremely

concerned by the outcome," she said.

Vernon Burrows, project manager for BASF, said Route 1 is the least viable and most detrimental alternative for the company. BASF is not opposed to an adjusted variation of Route 4 proposed by Dominion, but prefers its own adjustments to Route 4. BASF is concerned about how it will affect future redevelopment of its property, he said.

BASF's alternative is not viable because of its proximity to a pipeline owned by Colonial Pipeline, according to Wade Briggs, Dominion's project manager.

Other delays are possible, Harper said. Dominion possibly could file an amended application with the Corps of Engineers, but it may have to file a new application if a route other than Route 1 is approved, which could add an additional year to the timeline, she said.

The need for the 500-kV transmission line and the accompanying switching station and 230-kV lines that make up the Surry-Skiffes Creek project is driven by the high growth in the Virginia tidewater region. Demand grew to 1,969 MW from 1,767 MW, or 11.4%, during the past 10 years. It is expected to grow an additional 351 MW through 2021, Dominion said.

The need for the line was accelerated after Dominion's decision to retire six coal-fired units, the SCC said in its November Order.

The hearing examiner said he hopes to have a ruling on Dominion's request to approve Route 1 by March 1.

— *Mary Powers*

ISO-NE capacity auction likely to hit ceiling ...from page

the floor price, \$3.15/kW-month last year, and like all previous auctions, FCA 7 cleared surplus capacity, so the price was pro-rated to \$2.74/kW-month.

ISO-NE filed for FERC approval of the ceiling price in November after EquiPower Resources sought approval to retire, or "delist" in ISO-NE parlance, its 1,528-MW oil-and coal-fired Brayton Point plant in Somerset, Massachusetts, by May 2017.

ISO-NE said that EquiPower's decision, combined with the previously announced retirement of Entergy's 604-MW Vermont Yankee nuclear plant, announced in August, could tip the supply-demand balance and leave it 1,547 MW short of its net installed capacity requirement of 33,855 MW. And that imbalance could create a condition of "insufficient competition" and trigger the implementation of the price ceiling under ISO-NE's tariff.

Brayton is a "swing" asset in the New England market, and the effect of its closure is magnified by the fact that ISO-NE, unlike other ISOs, uses a vertical demand curve to set the parameters for its capacity auction.

Were Brayton to stay in the market, it could have increased the cleared price by 250%, UBS analyst Julien Dumoulin-Smith said.

ISO-NE rejected Brayton's non-price retirement request, giving Brayton the option of continuing to operate as a required resource and collect cost-of-service rates.

The situation is further complicated by the fact that under ISO-NE's rules, even though Brayton stood to receive out-of-

ISO-New England capacity auction prices (\$/kW-mo.)



Source: ISO New England

EquiPower's New England portfolio

Plant	Size (MW)	Location	State	Fuel
Lake Road	812	Killingly	CT	gas
Masspower	265	Springfield	MA	gas
Dighton	178	Dighton	MA	gas
Milford	555	Milford	CT	gas

Source: company data

NRG Energy plants in New England

Plant	Size (MW)	Location	State	Fuel
Devon	133	Milford	CT	oil
Conn. Jet Sites	142	four sites	CT	oil
Middletown	770	Middletown	CT	oil
Montville	500	Uncasville	CT	oil
Canal	1,112	Sandwich	MA	oil
Kendall	238	Cambridge	MA	gas
Kendall	18	Cambridge	MA	oil
Martha's Vineyard	14	Martha's Vineyard	MA	oil

Source: company data

market rates to continue operation, its capacity would still be counted toward the ISO's installed capacity requirement.

In addition, Brayton still had the option of retiring and would not have had to inform ISO-NE of its decision until June 20.

The uncertainty over Brayton's status was relieved on January 27 when EquiPower, in response to a complaint filed with FERC by the New England Power Generators Association, informed ISO-NE that it will retire Brayton's four coal-fired units by June 1, 2017, the day the delivery period for FCA 8 begins.

Several analysts welcomed the announcement.

UBS' Dumoulin-Smith in a January 28 report, "Brayton Bites the Dust, and So Goes the Market?," said that new assets could still clear the auction at a lower value but there is a "better than 50/50 likelihood" that the auction will clear short of capacity, triggering the ceiling price. The only region Dumoulin-Smith sees clearing at a lower price is Maine.

Barclays analyst Daniel Ford, in a report on the same day, called Brayton's announcement "a good market signal."

Both analysts highlighted several generators that could benefit in the upcoming auction, among them Calpine, Dominion Resources, Entergy, NextEra Energy, NRG Energy, and Public Service Enterprise Group.

The generator with the most at stake in ISO-NE is NRG Energy,

retired its 352-MW Norwalk Harbor plant in Connecticut in June, but still has eight plants, mostly fired with oil, totaling 2,927 MW in New England.

The other major potential beneficiary could be EquiPower, the owner of the Brayton plant and a unit of private equity firm Energy Capital Partners. In addition to Brayton, EquiPower owns 1,810 MW of relatively new gas-fired plants in Connecticut and Massachusetts.

The last minute drama surrounding the run-up to FCA 8, with filings and counter filings at FERC, could serve to galvanize efforts already under way to alleviate what ISO-NE itself admits are "significant flaws in the FCM" process by replacing the existing vertical demand curve with a downward sloping demand curve. The ISO's proposal on that initiative is expected to be filed with FERC on April 1.

In the past several years retirements have outpaced new plant announcements in New England. But given the capacity deficit relative to ISO-NE's installed capacity requirement, the region could see a wave of new activity if ISO-NE moves away from administrative fixes and closer to a capacity auction with clearer price signals.

It remains to be seen, however, how much of that activity will come from new generation projects. It is hard to site any form of generation in New England, even renewables.

Footprint Power's 674-MW Salem Harbor is one of the few new power plants to be proposed in ISO-NE in recent years. It is being built on the basis that it will replace a smaller and dirtier coal-fired plant with cleaner gas-fired capacity. But the project is awaiting a decision by the Supreme Judicial Court of Massachusetts, following a challenge by the Conservation Law Foundation that the plant's emissions would violate the state's Global Warming Solutions Act.

Additionally, new gas-fired plants in New England will face problems in securing adequate fuel supplies in New England's tight gas market because of the limited pipeline infrastructure. In addition, ISO-NE is debating the implementation of pay-for-performance rules that would penalize generators that are not able to secure gas during periods of tightness.

Those factors mean there is "a relatively low probability" that ISO-NE will see proposals for new gas-fired capacity, Dumoulin-Smith said, though he says some developers have begun "nascent work." Instead, he sees new resources focused on incremental efficiency and demand response products.

— Peter Maloney

Blackstone may be leading race ...from page 1

though not confirmed, as the three remaining contenders in the third and final round of bidding.

It is unclear what type of purchase prices the early rounds of bidding have brought, but there are some who wonder if the final bids will, in fact, be high enough to induce JP Morgan to sell.

Nevertheless, the bank, which has not been commenting, could announce the outcome any day.

In not-for-attribution interviews with senior traders on Wednesday and Thursday, the likelihood that Blackstone would be the winning bidder and would buy, lock-stock-and barrel, the entire JPMorgan physical commodities unit, was put at about