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Shrinking demand growth for power may be new normal

Strengthening the signals that Wall Street is more than alert to changing dynamics created by slower demand growth, Fitch Ratings said last week that the smaller increases in electricity usage will increase the financial pressure on a variety of power companies.

There is a growing sense among consultants and power companies that slack power demand represents a new operating environment, and not necessarily a temporary dip tied to the recession that will rebound when economic growth picks up. The number of companies adhering to such a view has grown from a handful to much larger numbers, with the implications yet to be sorted out.

Fitch said competitive generators have already felt some of the effects, as seen in Ameren's recent writedown of its merchant generation business and Dominion's planned retirement of its Kewaunee nuclear plant in Wisconsin.

The effect on public power utilities is not likely to be as material, Fitch said,

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ERCOT plan calls for $9 bil in transmission grid projects

Almost $9 billion in transmission projects would be built in the Electric Reliability Council of Texas footprint by the end of 2017 under a five-year transmission expansion plan announced Thursday.

"As we see the gap between available generation and peak electric demand become tighter over time, it becomes increasingly important to deliver new power resources to the grid as quickly, reliably and cost-effectively as possible," H.B. "Trip" Doggett, ERCOT president and CEO, said in a prepared statement.

Combined with the Long-Term System Assessment and the Electric System Constraints and Needs Report, the five-year plan helps "ERCOT, transmission providers and market participants plan ahead so we can prepare effectively for changing grid and market conditions," Doggett continued.

Transmission congestion will probably increase this year in the Houston area, as

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Treasury renewables reimbursements hit almost $16 bil

The Treasury Department reimbursed 851 renewable project developers $1.92 billion from its 1603 cash grant in lieu of tax credits program between September 10 and December 5, it said Thursday in an updated report.

The lump-sum cash reimbursements are equal to 30% of the cost of construction of any of 11 types of renewable projects, including wind, solar, geothermal, biomass, fuel cell, and landfill. Treasury first started making the payments September 1, 2009.

Total 1603 reimbursements to 8,273 developed projects stand as of December 5 at $15.96 billion. The Treasury Department released its data on its website.

The 1603 cash grant program was created by Congress and written into the American Recovery and Reinvestment Act of 2009, otherwise known as the stimulus bill, which was signed into law by President Barack Obama on February 17, 2009.

Following the financial crisis of late 2008 Congress was concerned that renew-

Google goes for wind farm tax credits with Texas project

The buying and selling of wind generation assets is expected to pick up steam now that the existence of the production tax credit, for at least one more year, has been settled by Congress.

The 2.2 cent/kWh PTC that companies can use for ten years to reduce their income tax exposure was initially designed to incentivize developers to build wind farms, which is why Congress extended the PTC in a vote late on January 1.

Operating wind farms that already have the PTC, however, can also attract buyers who can use the tax credits to offset their own tax exposure.

Google announced Wednesday a $200 million investment in a 161-MW wind farm in the Panhandle of Texas owned and operated by EDF Renewable Energy, the US renewable affiliate of the French utility of the same name, that both Google and EDF on Friday said was a tax equity transaction.

Google's investment in the Spinning

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New Jersey starts moving to address grid hardening

The issue of how best to harden New Jersey's utility infrastructure to protect it from future storms is now under active debate, with a variety of new legislation being proposed.

One measure would change how utilities are compensated for the investments they make related to grid hardening.

But Stefanie Brand, director of the Division of Rate Counsel, has warned that such investments must be carefully considered.

"People are struggling to figure out what can be done to make the electric grid better. We are saying don't rush to spend money before making sure projects provide real benefits," Brand said in an interview on Friday.

The Board of Public Utilities has contracted with Rutgers University to analyze the costs and benefits of possible investments. "I hope it gets done before we're asked to spend money," Brand said.

In particular, Brand noted that a bill introduced by Senator Raymond Lesniak, a

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able developers would abandon their projects due to the squeeze on credit. The ten-year production tax credit, or PTC, offered to wind developers, and the 30% investment tax credit offered to solar developers, were deemed by Congress at the time as inadequate incentives.

The 1603 cash grant in lieu of tax credits initially had a two-year lifespan, but was extended one year at the end of 2010. It was still in effect until the end of 2012 for wind developers who qualified, and is in effect through the end of 2016 for solar developers whose projects were either under construction or given safe harbor status by the end of 2011.

Treasury updates its itemized list of 1603 reimbursements on a periodic basis. The most recent update, released Thursday, itemized reimbursements from September 1, 2009 through to December 5, 2012.

The previous update included reimbursements only through September 10, 2012, and totaled $14.04 billion.

In the roughly three month period for which new reimbursements are listed, wind projects received the largest reimbursements, while solar power projects were the most numerous recipients. This has been the case throughout the program.

Among the 851 recipients between September 10 and December 5, was, for example, Cielo Wind Services, based in Austin, Texas, which received on October 1, 2012, a $47 million reimbursement from Treasury after bringing online its 78.2-MW Golden Spread Panhandle Wind Ranch project located near Amarillo, Texas.

Korea Southeast Power and DeWind, a subsidiary of Daewoo Shipbuilding and Marine Engineering, received a $46.6 million reimbursement October 31 after bringing online the 80-MW Novus I wind farm built near Guymon, Oklahoma.

Among the many solar projects brought into service and reimbursed were a number in Tennessee, including the Stan Bullen Nursery, which received a $273,000 reimbursement October 22.

A New York firm, 24 Applegate Solar, received September 26 a $5.89 million reimbursement from Treasury for a solar installation it completed in New Jersey.

Because of the rush by developers to complete wind projects by December 31, 2012, in order to qualify for either the 1603 cash or the PTC, an as yet tallied amount of new wind capacity that was connected to the grid after December 5 is not accounted for in the most recent Treasury update.

— Jeffrey Ryser

Groups urge final GHG power plant rules

Five coalitions representing more than 150,000 diverse small businesses nationwide Friday asked the Obama administration to proceed with greenhouse gas regulations for fossil fuel-fired power plants as soon as possible.

In a letter to President Barack Obama, the groups tied the control of emissions linked to climate change as paramount to economic growth. Thay also said a survey of small business owners supported finalizing GHG rules for electric generation.

"National standards to reduce carbon pollution from new and existing power plants will clarify risks and opportunities for U.S. businesses, while also leading to technological innovation and investment in the domestic clean energy market," the American Sustainable Business Council, Environmental Entrepreneurs, Ceres, Green America, and VOIS Business Alliance said in their letter.

Finalizing GHG new source performance standards under the Clean Air Act for power plants "is an important step toward spurring innovation, job creation and investment in low and no-carbon technologies, as well as new energy infrastructure and energy efficiency," the groups said in their letter. "Small business owners understand the nexus between environmental and economic interests, and believe that adhering

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to sensible clean air standards can spark innovation and drive long-term growth."

According to the organizations, 76% of the small business owners surveyed by the groups support EPA limiting carbon emissions under the Clean Air Act. About 87% also agree that "improving innovation and energy efficiency are good ways to increase prosperity for small businesses," the group said in their letter.

The Environmental Protection Agency last year proposed GHG performance standards for new power plants and is expected to finalize them this year. The agency has not said when it would do the same for nation's existing coal-burning fleet.

— Cathy Cash

Calif. generators emitted less GHG in 2011

Greenhouse gas emissions from California generators decreased for the fourth year in a row in 2011, according to data released Friday by the California Air Resources Board.

GHG emissions were about 35 million metric tons of CO2 equivalent in 2011, 21.7% less than a year earlier and down from roughly 52 million in 2008. Emissions related to electricity imports equaled 11 million mt in 2011.

The emissions decrease can be attributed to more renewables and shrinking electricity demand, CARB said.

Emissions trends will be an important indicator of the cost of complying with California's GHG cap-and-trade program, which went into effect January 1.

The mandatory cap is set at 162.9 million mt in 2013. Covered sectors include in-state generation, electricity imports and large industrials, like refiners.

In 2015, the cap grows to 394.5 million mt when the program expands to cover fuel distributors. The cap size is reduced by 15% between 2015 and 2020.

During the program, covered entities must hold enough GHG allowances to cover their emissions. The market determines the value of GHG allowances, which in turn is a function of supply and demand.

The number of GHG allowances in circulation equals the cap, while demand depends on GHG emissions from covered facilities. GHG allowances will likely be worth less the farther below the cap emissions fall.

In addition, CARB provided company-specific emissions data covering 2011. The top-ten emitters were natural gas distributors, refinery owners, and petroleum terminals.

As for some of the electric utilities, Los Angeles Department of Water & Power and Southern California Edison were in tenth and eleventh places, respectively. Pacific Gas and Electric was number 55 and San Diego Gas & Electric was ninety-first.

Some 581 companies submitted GHG emissions data covering 2011.

— Geoffrey Craig

FERC urged to facilitate communication

The Federal Energy Regulatory Commission should work to expand gas-electric communication during emergencies while protecting existing pipeline capacity structures and safeguarding non-public information, stakeholders said in advance of a key meeting on the issue.

"It is critical that system operators for pipelines and electric system operators be permitted to share information that is not publicly posted," ISO New England said in comments ahead of a pair of technical conferences on the issue.

While some of this information could be commercially sensitive, "in situations where the information is important to protect system reliability, the commission should assure that such information can be shared," ISO-NE said.

FERC is concerned that the electric industry's increasing reliance on gas for fuel could affect electric reliability, especially during peak demand periods during the winter. In response, it held five regional conferences in August to gather input on the issue and unveiled a suite of efforts in November to address it, including upcoming technical conferences.

The first conference, on enhancing communication, is slated for February 13, and FERC last week finished collecting comments on the topics that will be discussed there.

New England is ground zero for the coordination debate because the region relies heavily on gas for power. In 2011, gas supplied 51% of New England's electricity, but the vast majority of gas plants in the region do not have firm pipeline capacity, ISO-NE said.

The ISO is working on a suite of market rule changes to address gas-fired power reliability, but in the meantime, "effective and thorough communication between electric and pipeline operators is needed to protect the reliability of the electric and gas systems," it told FERC.

ISO-NE has a communication protocol for operating emergencies that has improved coordination, but the ISO's information policy prohibits sharing unit-specific information with interstate pipelines and local distribution companies, its comments said.

ISO-NE has proposed sharing real-time generator scheduling information with gas pipelines. The proposal would use non-disclosure agreements to protect information of both the gas and electric systems from unauthorized disclosure.

FERC in early December accepted the proposal but suspended the changes for five months. ISO-NE on December 19 asked FERC to change its mind and allow the ISO to immediately start sharing information to help operations during this winter. That request is pending.

A coalition of New England LDCs agreed that communications could be improved. It said FERC should use the technical conference to describe information that is already available, including scheduling priority and operational notices on the pipeline side, and fuel verification and non-performance penalties on the electric side.

But whatever changes FERC makes to communications, the commission must protect the priority of firm shippers like

LDCs that have paid for pipeline infrastructure, the LDCs said. "Shippers without primary firm capacity should not have the impression that enhanced communications create a commitment by the pipeline to provide primary firm service."

In the end, the region simply needs more pipe, the LDCs said. "In New England, issues of gas-electric coordination are physical in nature and will not be resolved without the construction of additional interstate pipeline infrastructure and the fair allocation of the costs of such construction."

Regarding emergency situations, the Electric Power Supply Association and the New England Power Generators Association argued that the importance of the secondary pipeline transportation market and spot market is overlooked by pipelines and system operators.

"EPSA and NEPGA submit that in any effort to address communication and information sharing, the commission should be careful not to inadvertently create any barriers to this already well-established and well-functioning commercial environment."

The generators also raised general concerns about the amount of information that might be requested by a system operator or a pipeline and how that information would be used and protected.

"Without a discussion of what specific information is necessary, there is a possibility that pipelines could be overwhelmed with data by system operators, thus leading to a greater risk of loss, misuse of information, etc., and perhaps with little or no benefit to reliability," EPSA and NEPGA said.

The Interstate Natural Gas Association of America said FERC should consider three questions regarding communication changes: does the change seek information that pipelines already provide, will the change improve electric reliability, and is the change allowed under existing legal requirements?

Pipelines already provide a "substantial body of information" to the public, and that should be a starting point, INGAA said. "Information that is not necessary to promote electric reliability should not be shared."

Regarding legal requirements, INGAA noted that the law prohibits undue preference for any person, which could include a dispatching entity, and prohibits using a third party to convey non-public transmission information to marketing employees.

"Finally, some have suggested that information-sharing conceivably could expose a pipeline to civil damages to the extent unauthorized disclosure causes a generator economic harm," the pipeline group said.

FERC must affirm that authorized information sharing does not violate commission rules or subject pipelines to civil liability, INGAA argued.

— Kate Winston

FirstEnergy transmission line opposed

An electric transmission line proposed by FirstEnergy is drawing a challenge from environmentalists who say the Akron, Ohio-based company has failed to explain why the 114-mile, 345-kV Bruce Mansfield-Glenwillow project is needed.

The Environmental Law and Policy Center, Sierra Club and Ohio Environmental Council are asking the Ohio Power Siting Board to require the company to further demonstrate the need to spend $150 million on line construction.

In an application filed with the board late last year, FirstEnergy said the line is necessary to replace power from Great Lakes area coal-fired power plants scheduled for retirement over the next several years with electricity from plants along the Ohio River.

On Friday, FirstEnergy spokesman Mark Durbin refuted the criticism of the project.

"Right now, we feel very strongly that this project is needed," he said.

"People who have a different opinion of that can submit their opinions to the siting board and, at the end of the day, [board members] will be the ones who will make that decision."

In comments submitted to the board last week, the environmental groups said FirstEnergy's American Transmission Systems Inc. subsidiary, which would build and operate the line, has presented "only generalizations about the need for the Mansfield line, with no opportunity for interested parties to obtain access to specific details about this need."

Without such detailed information, "the board cannot establish that this project is needed and in the public interest, and interested parties cannot meaningfully participate in the evaluation process."

At a minimum, the groups urged, the board should force FirstEnergy and ATSI to provide additional information related to the line including peak load assumptions used in the project's evaluation, assumed generating unit dispatch, and generating facilities assumed to be in service that would utilize the line.

But FirstEnergy and ATSI, in a Friday rebuttal, pointed out the need for the line has been "independently verified and approved" by the PJM Interconnection.

ATSI has "clearly articulated that the project is necessary to address a critical need in the Cleveland area," they added.

They also denied that ATSI has failed to provide sufficient details necessary to make a need determination. "ATSI is only required by law to submit general information and a statement explaining the need for the proposed facility, not to submit a detailed technical analysis of the need for a project 'proving' the need," they said.

Nor is the groups' contention accurate that alternatives to the line were not adequately studied by the companies. ATSI "has conducted the appropriate analysis of alternatives and nothing in this analysis suggests that the project is not needed or that any operating alternatives present a viable alternative to construction of the project," they said.

Nicholas McDaniel, the associate attorney for the Environmental Law and Policy Center, declined further comment on the filing Friday afternoon.

Durbin said FirstEnergy and ATSI hope for a board decision this year.

"Our focus this year is to get approval of the project," he said.

If that happens, construction on the project could get under way in the latter half of 2014, with the line in commercial operation by early 2016.

— Bob Matyi

N.Y. eyes blocking out-of-state projects

New York has become the latest state to consider blocking projects located outside its borders from participating in renewable energy solicitations, an approach that has raised constitutional challenges elsewhere.

The Public Service Commission has opened a docket to explore the idea of limiting bidding to in-state projects when the state seeks renewable energy credits. Offshore projects that are directly connected to the New York grid could also participate, under the proposal, which was put forward by the New York State Energy Research and Development Authority.

NYSERDA, a quasi-state agency that administers the renewable portfolio standard auctions, argues that letting out-of-state projects bid robs New York of the full benefit of an RPS.

"Energy security and direct economic benefits are realized by the state only when renewable energy projects are built and operated in New York state," NYSERDA said.

New York's RPS, which requires 30% renewables by 20l5, is run differently than many others' because NYSERDA, not utilities, contracts for the RECs. Bid winners receive money for the credits and then are freed to sell their energy elsewhere.

NYSERDA said that even if the out-of-state bids are inexpensive, they still fail to offer the state the same economic advantage as in-state projects, which NYSERDA pegs at $6 billion if the state meets its target.

"It appears that no amount of reduction in the bid price for a 10-year NYSERDA contract from an out-of-state project can offset the loss of 20 years of economic benefits from a project built in New York. As an illustration, a $10/MWh bid price savings for a 100 MW out-of-state wind farm would yield approximately $24.5 million in program savings, but would forgo $117.7 million in economic benefits to New York," NYSERDA said in a PSC filing.

Some other states have run into Commerce Clause challenges when they have tried to block out-of-state projects from bidding in renewable energy solicitations. For example, TransCanada in 2010 successfully challenged an NStar solicitation that excluded out-of-state generators, leading Massachusetts regulators to order the utility to start over.

However, New York's unique approach to its RPS may spare it from a similar challenge, according to Valerie Strauss, interim executive director for the Alliance for Clean Energy New York.

Since it is NYSERDA, "it is not quite the same Commerce Clause issue. You don't have a private entity entering into a contract," she said.

The only role played by the utility is in collecting the money to pay for the RECs, which is taken from a surcharge on ratepayer bills. The money goes to the state, which puts NYSERDA in charge of the RPS solicitation.

Russell Jessee, an attorney with Steptoe & Johnson who recently litigated the West Virginia RPS, said the Commerce Clause may be applied differently in New York than Massachusetts because of the unique way New York administers its RPS. The Commerce Clause prevents discrimination against out-of-state businesses. But New York has set itself up as the market, as the sole buyer, which creates a different legal dynamic. As such, the state equally takes business away from both in-state and out-of-state enterprises, he said.

A REC, he said, is a property interest created by the state – RECs did not exist until the state passed a law creating them. So in New York, the state created the property and set itself up as the only market for the property, which likely clears it of Commerce Clause violations.

NYSERDA made a similar argument to the commission: "New York's RPS program operates through direct participation in the market, not regulation of the market, and therefore it does not violate the dormant Commerce Clause."

The PSC seeks comment on the issue no later than February 19. Reply comments are due no later than March 6.

— Lisa Wood

New La. PSC chair eyes ROE levels

The rates of return on equity that Louisiana's investor-owned utilities are permitted to earn are far too high and should be reduced, probably to about 8.5% from the current midpoint range of 10.25% to 11.75%, the new chairman of the state's Public Service Commission said Friday.

Foster Campbell, a Democrat and self-described populist who has served on the five-member PSC since 2003, said in an interview that Louisiana's IOUs — including Entergy Louisiana and Entergy Gulf States Louisiana — enjoy monopoly status, face "no risk" and can borrow whatever money they need at historically low interest rates.

"If interest rates were rising they'd be beating down my door, saying they need a higher ROE," Campbell said, but since interest rates fell in the wake of the 2008 financial crisis there has been no real downward movement in allowable ROEs.

"These companies don't have any competition. [Their business is] like shooting fish in a barrel," yet the IOUs are permitted to earn ROEs that are "just too high," Campbell said.

"This issue is hot on the stove. Entergy Louisiana and Entergy Gulf States Louisiana have rates cases coming up" in the next few months, Campbell said. "I want the commission to hire a consultant who will be very objective about what the ROE should really be," and not merely mimic recommendations for 10%-plus ROEs approved for most IOUs in the US in the past few years.

Campbell said that in his view the Entergy subsidiaries should be allowed to earn ROEs of perhaps 8.5% — far less than

Entergy Louisiana's current midpoint of 10.25% and Entergy Gulf States Louisiana's 10.65%.

"Sure, they'll be all kinds of push-back" from the IOUs, said Campbell. "Let them get mad and raise hell. But I represent the ratepayers. I am on the Public Service Commission," he said, emphasizing the first two words of the panel's name, "and I take that literally."

Asked about the possibility that IOUs may file legal challenges to PSC decisions to cut ROEs, Campbell said, "That's what courthouses are for. I was in the state legislature for 27 years, and every time we passed a bill that might hurt the big guys they'd threaten to sue."

Campbell said he cannot predict whether the four other members of the PSC will agree with his view that IOU ROEs should be cut significantly, but he noted that commissioners are elected and asked, "Are they going to champions for the ratepayers or the utilities?"

Asked for comment, Molly Jahncke, spokeswoman for Entergy, said, "Utilities across the industry are facing significant capital requirements over the next 10 to 20 years, and we're competing for capital in a global market of industries that also have an unprecedented need for infrastructure investment. To support the investment that we need to make to provide clean, safe, reliable and affordable electricity to our customers, allowed ROE must be comparable to returns on investments in other businesses with similar risks and uncertainties, and must be sufficient to allow the utilities to maintain creditworthiness and attract capital on favorable terms."

IOU risk "is, in fact, significant," Jahncke said, noting that utilities "face unprecedented capital requirements related to environmental regulations, generation and transmission spending, renewable requirements, and the potential for natural disasters ... Slowing sales and the general economic outlook are further challenging the industry's financial performance, driving risk exposure. Though interest rates have been low, risk premiums continue to be at or near historic levels, which strongly contradicts the notion that the ROEs are excessive."

She concluded, "All these factors demand prudence by utility regulators in determining an appropriate ROE — one that is consistent with that allowed to similarly situated utilities, and one that is adequate to allow the companies access to capital ... Lowering allowed ROEs in Louisiana to the level that Commissioner Campbell suggests would place the state's utilities at a significant economic disadvantage in raising capital versus similarly situated utilities, since the current allowed ROEs for Louisiana utilities is consistent with — in fact, lower than — the Southeast regional and US national averages and trends."

In its third quarter "rate case summary" update, the Edison Electric Institute said that the average ROE approve by regulators nationally in that three-month period was 9.78%, "the lowest in more than three decades." The average requested ROE in the quarter was 10.68%.

EEI said that the average approved ROE in the third quarter was lowered by three Pepco Holdings rate cases settled in the period "with awarded ROEs of 9.81%, 9.31% and 9.5%." The lower ROEs in the Pepco cases, the group said, "partially reflect the Maryland commission's criticism of reliability and storm response during the past several years" — negative factors not tied to most ROE decisions.

EEI said that falling interest rates "account for much of the longer-term trend of declining approved ROEs," and added that regulators' efforts to "moderate rates during times of financial hardship for many customers" also has helped hold down ROE levels.

— Housley Carr

RMR contract sparks capacity market debate

The debate over which generators must be kept from artificially depressing capacity market prices in New York has taken a new turn. Whereas bid mitigation rules have targeted new state-subsidized generation, the Federal Energy Regulatory Commission must now consider whether units with reliability-must-run contracts should face similar restrictions.

The New York Independent System Operator and New York State Electric & Gas recently concluded that the coal-fired 327 MW Cayuga Station north of Ithaca, which was scheduled to be mothballed this month, is needed to maintain grid reliability on NYSEG's system for a limited number of hours each year.

As a result, Cayuga filed a proposed RMR contract with FERC (Docket No. ER13-405) that would pay the generator to remain online. Cayuga also had NYSEG file a similar agreement, called a reliability support services agreement (RSSA), with the New York Public Service Commission.

While the RMR contract would require the generator to bid at its going-forward costs, the RSSA would make Cayuga offer into the capacity auction at a *de minimis* price, "which is drastically below Cayuga's actual going forward costs," the Independent Power Producers of New York said in January 7 comments to FERC.

Cayuga has said it will withdraw its RMR filing from FERC if the state approves the RSSA.

The PSC's approval of the RSSA would not "in any way affect" FERC's exclusive jurisdiction and obligation to review the RSSA and its *de minimis* bidding provision, IPPNY contended.

In the event the PSC approves the deal and Cayuga claims the RSSA governs the terms and conditions under which it provides service, "FERC should reject as unjust and unreasonable" the *de minimis* bid requirement in the RSSA "to ensure that the NYISO capacity market functions in a competitive manner free from artificial price suppression," IPPNY said.

"This proceeding represents the latest chapter in a series of proceedings in which the commission [FERC] has taken steps to prevent the artificial suppression of market-clearing prices in New York capacity markets," IPPNY said.

FERC's prior efforts to prevent artificial price suppression in capacity markets were focused on new entrants and its actions "were predicated, in significant part, on the presumption that existing generators were looking solely to the markets to recover their revenues," IPPNY said.

However, under the circumstances presented by Cayuga, "competitive bidding will not occur," IPPNY said.

New York City generator TC Ravenswood largely echoed IPPNY's arguments.

FERC should either require that Cayuga's facilities by excluded from the NYISO capacity market or require Cayuga and NYISO "to account for Cayuga's capacity" in the auctions based on actual costs, TC Ravenswood said.

However, Exelon said FERC should go one step further and limit Cayuga's market activity "to those situations where its participation in those markets is absolutely required to meet reliability needs."

Cayuga had been owned by AES' subsidiary AES Eastern Energy (AEE) until that company filed for bankruptcy in December 2011. Upstate New York Power Producers, a company formed by AEE's lenders, now controls the plant.

— Esther Whieldon

Nuclear units top Ontario supply sources

Nuclear units continued to dominate Ontario's power supply in 2012, generating 85.6 million MWh, or 56.4%, of the province's power, according to data released Friday by the Ontario Independent Electricity System Operator.

Nuclear output was up slightly from 85.3 million MWh in 2011, but its share of the mix fell from 56.9% in 2011.

Output from hydroelectric and natural gas facilities was essentially unchanged from a year ago at 33.8 million MWh, or 22.3% of the mix, and 22.2 million MWh, or 14.6% of the mix, respectively.

The year 2012 marked the first time wind generation surpassed coal generation output in Ontario. Wind generation accounted for 4.6 million MWh, or 3% of the mix, compared with coal's 4.3 million MWh, or 2.8%.

Although Ontario plans to phase out coal generation by the end of 2014, its total output as well as its share of the supply mix increased slightly from 2011.

Total electricity consumption for the year was virtually flat at a little more than 141 million MWh, with a peak demand of 24,636 MW occurring July 17.

— Allan Schilling

Low growth may be new normal *... from page 1*

given their business model and lower reliance on industrial usage, but public power entities that rely heavily on the sale of excess power to boost revenue are likely to face continued pressure to raise rates in 2013.

Fitch expects the utility business model to face increasing challenges over the next three to five years as federal lighting standards take full effect and competition from energy efficiency and demand-response businesses ramps up.

Twenty-four states, including a majority of the most populous, have some form of energy efficiency resource standard, said Glen Grabelsky, analyst and managing director at Fitch. Although many of those states have changed regulatory policy to decouple utility revenue from being totally based on electricity sales, there are several without such regulations, Grabelsky said in an interview.

Another recent indication that low demand growth could be a longer-lasting phenomenon than previously expected was the Energy Information Administration's early release last month of its Annual Energy Outlook 2013.

In it, EIA cut its long-term estimates — the analysis looks out to 2040 — for annual electricity demand growth in half, to 0.7%. The total demand estimate includes sector-specific projections of 0.7% demand growth for residential customers, 0.8% for commercial and 0.6% for industrial users.

De-link of demand and GDP

For decades, planning in the power industry has been based on a strong correlation between electricity demand and economic growth. Despite some upticks in demand, however, demand has yet to fully recover to pre-recession levels, and several analysts have been questioning whether that historic link has been broken.

"It is a new era. There is very little indication that demand will return back to pre-recession growth levels," Gregory Aliff, senior partner for energy and resources at Deloitte, said in an interview.

Macquarie Equities Research suggested in a September note about declining demand growth that there there is a shrinking correlation between power demand and GDP. These two historically have fallen and risen roughly in tandem but started to "decouple" sometime in 2011. Energy efficiency is contributing to that development, Macquarie said.

Ahmad Faruqui, a principal at The Brattle Group, said the separation of demand and economic growth "is not absolute, but the link has attenuated."

In a December 21 report, however, analysts at Bernstein Research argued that there has not been a decoupling of demand growth and GDP.

Bernstein said its analysis showed that industrial demand continues to have a strong positive correlation with industrial production and commercial demand shows a similar correlation. Residential demand does not show as a strong relationship, but is more based on the number of households, the analysts said.

While that analysis suggests that demand could pick up as the economy recovers, Bernstein concluded that increased efficiency in the residential sector, which accounts for about 38% of overall demand, will suppress demand growth through 2015.

Part of the explanation of those phenomena is that residential demand is price-sensitive and is correlated negatively to rising prices.

While Bernstein may not see eye to eye with Deloitte or Brattle on demand separation from economic growth, their conclusions are similar. Slow or stagnant demand is going to put financial pressure on power companies.

Testing ratepayer patience

And both Deloitte and Bernstein point to the potential of a growing mismatch between utilities' growing investment needs and stagnant or declining demand growth. Utilities are facing many big-ticket investments not related to demand, such as environmental upgrades at power plants to meet new emissions regulations.

Without rising power sales, those investments will raise utility rates and, as Bernstein said, over time "continuous increases will test the patience of both ratepayers and regulators, raising the regulatory risk of the industry." Rate decoupling can provide some relief, Bernstein said, but the relief might be temporary.

Higher prices could further suppress demand and touch off another round of rate increases, which could result in "a death spiral, if taken to the extreme," Brattle's Faruqui said.

"No capital-intensive business can survive in a 1% growth environment," he said. Many utility CEOs have yet to adapt to that reality or to the prospect that "demand is not coming back," he said.

He recommended that utilities begin to look at changing their business model, perhaps adopting fixed capacity charges to offset wider penetration of distributed generation or exiting the generation business and becoming strictly wires companies, focused just on transmission and distribution.

— Peter Maloney

ERCOT plan calls for grid projects *... from page 1*

some lines will be out of service while they are upgraded.

But the Electric System Constraints and Needs Report says, "In 2012, by far the most significant constraints experienced in the ERCOT system, and also the greatest challenges in planning the system, were due to the rapid expansion of oil and gas exploration and production in Texas." These constraints and challenges were in the Permian Basin of West Texas and the Eagle Ford area of South Texas.

"Even with the long-term transmission solutions, congestion in the area may still occur if the costs of additional projects to relieve the congestion exceed the economic benefit measured in terms of production cost savings," the report states.

The Competitive Renewable Energy Zone projects should relieve congestion on the path from ERCOT West to ERCOT North by the end of 2013, and a new 345kV import line and upgrade of two existing 345 kV import lines should relieve congestion in the Lower Rio Grande Valley, the report states.

The five-year transmission expansion plan includes 63 projects needed by the end of 2017 to maintain reliability, and three projects that are justified by their economic benefits. Sixty-one of the 66 projects are in the range of 69-kV to 138-kV.

Meanwhile, reliability in the ERCOT region is a concern for the North American Electric Reliability Corp., and a letter from Gerry Cauley, that agency's president and CEO, to Doggett was circulated Friday among stakeholders in ERCOT's Demand-Side Working Group.

The January 7 letter asks ERCOT to submit a report to NERC by April 30 detailing ERCOT's plan to address NERC's concerns about ERCOT's declining reserve margins, which are projected to fall below ERCOT's target of 13.75% this summer and continue to fall thereafter.

"The report should provide a summary of actions planned (for both the planning and operations horizons), including the planned timetable by which NERC can track progress with you," the letter states. "We invite you to present ERCOT's outlook and plans to address resource adequacy to the NERC Board of Trustees at its May 9, 2013 meeting."

— Mark Watson

Google goes for credits *... from page 1*

Spur Wind Project, located 30-miles west of Amarillo, gives the famed Internet search engine company almost all the project's PTCs over the next ten years, which, if the facility performs up to expectation, are valued at about $96 million.

Google spokeswoman Kate Hurowitz, as well as Sandi Briner, spokeswoman for EDF Renewable Energy, on Friday confirmed the deal was a tax-equity transaction.

The 70-turbine wind farm was brought into operation on December 20, just eleven days before the federal PTC was due to expire. In so doing the facility was eligible to receive the PTC even if Congress had not voted to extend it.

Spinning Spur sells power under what EDF has called "a previously executed" 15-year power purchase agreement with Southwestern Public Service, a utility affiliate of Xcel that is based in Amarillo and serves parts of Texas as well as parts of New Mexico.

EDF will remain an owner and the manager of the project. But as an equity investor, Google will benefit as well from the revenue from the 15-year, fixed price power sales agreement.

The facility's PPA was initially signed by Cielo Wind Power before the Austin, Texas-based wind developer sold, for an undisclosed sum, the Spinning Spur project to EDF in January 2012.

At the time of the purchase from Cielo, EDF, which was then known as enXco, noted that "the current market situation and fast approaching expiration of the federal PTC program opens new opportunities to partner with strong developers like Cielo."

Walter Hornaday, chairman and president of Cielo said on January 18, 2012, "This project is a direct result of the job-creating Federal incentives for wind power that currently stand to expire at the end of 2012 and local incentives from Oldham County and area schools."

Roughly two months later, on March 26, EDF announced it had closed on its second purchase of a Texas wind farm, this time the 150-MW Bobcat Bluff Wind Project near Wichita Falls from Element Power, a London-based company owned by the private equity firm Hudson Clean energy Partners.

EDF said at the time that the Bobcat Bluff facility provided "an opportunity to enter the strong wind resource market of the Electric Reliability Council of Texas while the federal production tax credit program is in effect."

In October, and then again in early November, E.ON Climate & Renewables North America, the US affiliate of the big German utility, announced it had secured $224 million in financing by monetizing the production tax credits of a south Texas wind farm, and had sold 50% stakes in other US wind farms that did not have PTCs to a Danish pension fund.

Google said on Wednesday that it looks for projects like Spinning Spur, "because, in addition to creating more renewable energy and strengthening the local economy, they also make for smart investments: they offer attractive returns relative to the risks and allow us to invest in a broad range of assets."

Google, based in Mountain View, California, also said January 9 that it was "proud to be the first investor in an EDF Renewable Energy project that is not a financial institution, as we believe that corporations can be an important new source of capital for the renewable energy sector."

EDF's vice president of project finance, Jim Peters, said in a released statement that, "The partnership between our companies reflects a departure from sourcing investment capital from traditional financial institutions for our renewable energy projects."

In April 2011 Google invested $100 million in Shepherds Flat, the 845-MW wind farm located in Arlington, Oregon, that was developed by Caithness Energy and GE which became operational September 2012.

Other investors in Shepherds Flat include Sumitomo Corporation of America and Tyr Energy, a subsidiary of ITOCHU.

The owners of Shepherds Flat have said that instead of the PTC they expect to opt for the Treasury Department's 1603 cash grant in lieu of tax credits, which could bring them a $507 million lump-sum payment soon, rather than tax credits of roughly an equal amount spread out over the next ten years.

— Jeffrey Ryser

N.J. to address grid hardening *... from page 1*

Democrat whose district includes the southern portion of Newark Bay, which was heavily flooded by Superstorm Sandy, would authorize the installation of smart meters.

"It would cost $1 billion to install smart meters and it wouldn't do anything to prevent outages. It would just tell utilities when customers lose power and when it comes back on," Brand said.

Lesniak's bill, S-2429 was introduced January 8. "It is a kitchen sink approach. I very much think it is important to look at costs and the improvements the investments will make," Brand said, noting that there are elements of the bill that she supports such as requiring utilities to submit an infrastructure improvement plan and increasing civil penalties for utilities that violate performance standards.

Brand supports S-2206, a bill that would increase civil penalties to $25,000 for violations of laws and regulations with a cap of $2 million. The penalties are the same in Lesniak's bill. Currently penalties are $100 a day for violations.

Brand is opposed to Lesniak's proposal to allow the BPU to adopt an alternative method for utilities to recover the costs of implementing their infrastructure improvement plans.

Although Lesniak's bill does not offer specifics on what the alternative cost recovery method should be, Brand assumes that it would allow utilities to recover costs without going through a traditional rate case.

"This is the bread and butter of what utilities do and the idea of reducing scrutiny through the use of formula rates is totally backwards. We should be increasing scrutiny not reducing it," Brand said.

Electric utilities prefer simpler formula rates, Brand said. But rate cases, while costly and time consuming, give consumer advocates a chance to look at what the utilities are doing. For example, without a rate case consumer advocates would not be able to see where utilities are saving money that could be used to offset rate increases to pay for infrastructure investments, she said.

"Lesniak's bill would reduce the hoops for utilities and we are very opposed to that. It's another front we need to fight," Brand said.

In a letter dated Thursday to the members of the General Assembly Telecommunications and Utilities Committee, Brand called for a reexamination of the way reliability standards are calculated by possibly requiring the state's four IOUs to reach first quartile performance for their system average interruption frequency indices and customer average interruption duration indices.

"Regulations could provide that those utilities that do not perform in the first quartile should have their minimum reliability levels set at 10% improvement over the previous year's levels until it reaches the first quartile values," the letter said.

Brand also recommended that the BPU be given the resources to audit and enforce reliability measures.

As for cost effective measures that could be undertaken to help protect utility infrastructure during storms, Brand said substations in coastal flooding areas should be protected. "We're never going to eliminate outages, but there are things we can do," Brand said.

Other measures to consider are selectively placing underground feeders that would prevent thousands of people from losing power, Brand said. Redundancies in supply circuits also could prevent massive outages, she said.

— Mary Powers

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