

Summary

- ✍ The US Senate failed to approve energy legislation in November. It is unclear if, or when, the legislation might resurface during this session. The legislation contains provisions that will affect development of wind power over the short- and long-term, including extension of the federal production tax credit, changes to how regional transmission systems are operated, and creation of a federal renewable portfolio standard. FERC Chairman Pat Wood indicated the Commission might go forward with its standard market design proposals if Congress does not provide an alternative direction in legislation.
- ✍ FERC ordered American Electric Power's transmission company to join the PJM grid in December, saying the move is necessary to meeting conditions of AEP's 1999 merger with Central and South West Corporation. The states of Virginia and Kentucky are critical of the order, since it conflicts with laws or regulatory actions in those states that would prevent or delay the action. Other state commissions have joined with them, saying FERC's order trumps long-established state authority to protect the public interest by approving or disapproving proposed mergers of transmission companies. Since AEP's transmission assets are large and centrally located in the Midwest, their disposition may affect how wind energy is delivered to markets throughout the region.
- ✍ RTO West regional stakeholders have agreed on the groundwork for a new proposal. When it became clear that opposition by public power, state regulators and others to would likely prevent realization of a unified Pacific Northwest grid, RTO West convened a small group of influential participants to come up with a new platform to reflect broad consensus and have a more realistic chance of being approved. The new platform formalizes and increases the role of states in RTO decision-making, envisions a more limited beginning state, and presents a more incremental approach to implementation. It also proposes Day 1 implementation of "intermediate-term" transmission rights trading, a proposed market for unused transmission capacity on a timescale that could be helpful to intermittent generators like wind.

The Energy Bill

Energy Bill Fails in Senate

During the summer of 2003, the US House and Senate approved different versions of proposed national energy legislation. Things picked up in November when the House approved the conference committee's version on November 18. When the report came before the Senate on November 21 it was still 2 votes short of the 60 needed to pass, but Senate Republicans retained the ability to bring the measure up for a vote another time. It is uncertain whether the legislation will be brought up again this session. As it stands, the conference report contains a number of provisions that could affect future development of renewable energy resources. In its most recent form, the bill would:

- ? Amend the tax code to extend and modify the renewable energy

production tax credit to include “credits for electricity produced from biomass, swine, and bovine waste nutrients; geothermal and solar energy; and small irrigation power, municipal biosolids and recycled sludge.”

- ? Prohibit FERC from mandating standardized transmission markets until the end of t 2006. (This would not stop FERC from moving forward with voluntarily grid standards, however.)
- ? Allow transmission owners to reserve space on their lines to serve their local customers.
- ? Give utilities immunity from paying for grid projects not deemed beneficial to their customers.
- ? Allow FERC to write mandatory reliability standards.
- ? Repeal mandatory purchase and sale requirements governing cogeneration and small power production facilities.
- ? Mandate net metering service upon electric consumer request.
- ? Repeal PUHCA, but prescribe new guidelines for Federal and state access to books and records of utility holding companies.
- ? Prescribe guidelines for a Federal RPS under which retail electric suppliers must submit RECs to the DOE.
- ? Direct the Secretaries of Interior, Agriculture, and Energy to develop guidelines for cost-share demonstration programs for wind and solar energy facilities on federal land.
- ? Accelerate use of hydrogen in isolated areas, in foreign economic development, and investigate hydrogen production methods that minimize greenhouse gas production.

If the Energy Bill does not pass, FERC Chairman Pat Wood has indicated the Commission may go ahead and set transmission and/or reliability standards on its own: “The bottom line is we need to have some standards in place, hopefully by this summer.” In his comments, Wood didn’t indicate whether FERC would consider mandatory or voluntary standards, and noted that while FERC’s mandate does not specifically focus on grid reliability standards, it “may be time for us to rethink that.”

Energy Policy Act of 2003 (Engrossed Amendment as Agreed to by Senate), H.R. 6 EAS.

HR 6 Bill Summary and Status, <http://thomas.loc.gov>, accessed 1/5/2004.

Transmission Report, 11/10/2003-11/23/2003, Energy Info Source.

The Midwest

FERC Orders AEP to Join PJM

In a November Order, FERC said Ohio’s American Electric Power (AEP) must place the transmission assets of its utility companies under the control of the PJM Interconnection to meet conditions of its 2000 merger with Texas’ Central and South West Corporation (CSW). AEP, whose utility operating companies comprise a large portion of the Midwest, first attempted to create the for-profit Alliance RTO to control the transmission system located between the Midwest Independent System Operator (MISO) grid to the west and PJM to the east. It

later abandoned these plans in favor of joining PJM, but was prevented from doing so by state actions preventing the move.

The FERC order conflicts with state law in Virginia and a state commission ruling in Kentucky prohibiting the transfer. In response, Kentucky and Virginia regulators have asked FERC for extra time to challenge the ruling. Both states have argued that AEP's action could increase costs for their consumers. The states said the case sets a precedent because FERC has never sought to "preempt state law, let alone the laws of two sovereign states simultaneously."

FERC gave an administrative law judge until March 15, 2004, to issue a ruling in the case, to be reviewed and finalized by FERC commissioners. Kentucky and Virginia asked FERC to move the ALJ decision deadline to October.

The Alabama Public Service Commission asked for permission to intervene, arguing the decision may affect its ability to enforce state law. It said the decision "conflicts with and may affect the Alabama Public Service Commission's ability to enforce state law", which requires the commission to approve any proposed sales of utilities or their leases to ensure such transactions are in the public interest. It joined the other states in asking for an extended review deadline, saying, "the issues are too novel, far-reaching, complicated and important to be dealt with in a hasty manner."

Federal Energy Regulatory Commission, Order Making Preliminary Findings and Giving Public Notice and Setting Matter for Public Hearing Under PURPA Section 205(A), Issued November 25, 2003, Docket Nos. ER03-262-001 et al.

Transmission Report 12/8/03-12/21/03, Energy Info Source.

MISO and PJM File JOA with FERC

MISO and PJM executed and filed with FERC a Joint Operating Agreement in December. The agreement was required by FERC last year. It provides each grid with detailed information on each other's operations and establishes procedures designed to strengthen reliability between the two grids. Execution was delayed after the August power outage, as both grids wanted additional time to study reliability provisions in the agreement in light of the outage.

Press Release, MISO and PJM Execute and File Joint Operating Agreement with the FERC, Midwest ISO, December 31, 2003.

Transmission Report 12/8/03-12/21/03, Energy Info Source.

Midwest ITCs Face Hurdles

TRANSLink Suspends Development - TRANSLink utilities have announced that formation of the proposed TRANSLink Transmission Company has been suspended. Audrey Zibelman, TRANSLink's President and CEO, said in a November 2003 press release that "TRANSLink utility participants asked the board and management last week to put all development and operational activities on hold due to continued regulatory and market uncertainty."

Plans had called for TRANSLink to operate and own electric transmission systems in portions of Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wisconsin.

TRANSLink participants are Interstate Power and Light Co. of Cedar Rapids, Iowa, a subsidiary of Alliant Energy, Madison, Wis.; Central Iowa Power Cooperative, Cedar Rapids, Iowa; Corn Belt Power Cooperative, Humboldt, Iowa; Dairyland Power Cooperative, La Crosse, Wis.; Great River Energy, Elk

River, Minn.; MidAmerican Energy Co., Des Moines, Iowa; Muscatine Power and Water, Muscatine, Iowa; Nebraska Public Power District, Columbus, Neb.; Omaha Public Power District, Omaha, Neb.; Rochester Public Utilities, Rochester, Minn.; Southern Minnesota Municipal Power Agency, Rochester, Minn.; Xcel Energy, Minneapolis; and Midwest Municipal Transmission Group, an association of municipal utilities.

Press Release, TRANSLink Utilities Suspend Development Activities, TRANSLink Transmission Company, November 21, 2003.

GE sells its stake in Michigan Electric Transmission Company - Trans-Elect is an independent transmission company that owns and operates 13,000 miles of high-voltage power lines in portions of Canada and the US. The company operates the former transmission assets of Consumers Energy and is part of an international consortium that operates the former transmission assets of Canadian power distributor TransAlta.

When Trans-Elect purchased Consumer's Energy's transmission system in 2002, it teamed up with GE Structured Capital to finance the \$290 million deal and placed the assets into a new company called the Michigan Electric Transmission Company, or METC. The purchase was notable because it marked the first sale of a grid network to an independent transmission company in the US.

Now, GE Structured Finance said it has sold its 85% stake in METC, 40% of that to an Australian company called the Macquarie Group. Trans-Elect's agreement to purchase the transmission assets of Illinois Power was canceled in 2003, and Trans-Elect is now involved in a lawsuit against Illinois Power and Dynegy alleging the companies failed to use their "best efforts" to complete the deal as required under their contract.

The Energy Daily, Trans-Elect Sues Illinois Power over Failed Deal, October 24, 2003.

Hoover's Online, Trans-Elect Fact Sheet, available at <http://www.hoovers.com/>, accessed 1/12/2004.

Transmission Report 12/8/03-12/21/03, Energy Info Source.

Ohio's FirstEnergy Blamed for August Blackout

A joint US/Canadian task force concluded in a November report that overgrown trees shorting out three major transmission lines owned by FirstEnergy were the initial cause of the August 2003 blackout that affected parts of the Midwest, Northeast, and Canada. It also:

- ? Concluded that plant shutdowns and an overburdened grid were contributors to the blackout.
- ? Cited inadequate communications between the MISO and area utilities.
- ? Cited "inadequate situational awareness" of FirstEnergy's employees who were unaware that line monitoring software was not functioning.
- ? Said that MISO lacked real-time information about what was happening to FirstEnergy's power lines, which hindered attempts to contain the outage.
- ? Found that FirstEnergy violated four specific voluntary NERC standards, and that MISO violated two such standards.

The Public Utilities Commission of Ohio (PUCO) is expected to vote on an order requiring FirstEnergy to upgrade equipment in its control center. However, a PUCO spokesman says neither the commission nor FERC has clear authority to

order utilities to cut trees. (Provisions in the federal energy bill would allow FERC to write mandatory standards, which the state could then enforce.)

The FERC also ordered FirstEnergy to pay for an independent study of Ohio's power grid within 120 days. The order calls for FirstEnergy to hire a consultant by the end of January and report to FERC in April 2004. Results of the study are to be shared with PUCO, NERC, and MISO.

United States-Canada Power System Outage Task Force, Interim Report: Causes of the August 14th Blackout in the United States and Canada. November 2003.

Federal Energy Regulatory Commission, Doc. No. PA04-12-000, available at <http://www.ferc.gov/industries/electric/indus-act/reliability.asp>.

Transmission Report, 11/10/2003-11/23/2003 and 12/8/03-12/21/03, Energy Info Source.

Arrowhead-Weston Line Gets Final Approval

The Wisconsin Public Service Commission approved a revised cost estimate of the Arrowhead-Weston transmission line, a 220-mile line that has been under study for 6 years. Work on the new line is now scheduled to start in early 2004, with construction expected to be complete by 2008.

The new line was originally approved by the Wisconsin PSC in 2001, but American Transmission Company (ATC) took over the project and submitted an increased cost estimate in 2002, arguing the increased costs were due to improved environmental protections, increased payments to landowners, farmland bio-protection measures, and project delays.

The line had been opposed by citizens' coalitions and environmental groups, and the lengthy approval process is viewed as exemplary of the challenges that may be faced by new transmission projects, including those that may benefit long-distance transfers of wind energy, in the Upper Midwest.

Press Release, ATC Applauds PSC Decision on Arrowhead-Weston Project, American Transmission Company, December 19, 2003.

FERC Eliminates MISO/PJM Through and Out Rate

In November FERC upheld an earlier ruling holding that MISO and PJM's "through and out" rate were unjust and unreasonable. The rates generate an estimated \$250 million annually to grid owners such as AEP, FirstEnergy, and Exelon. FERC said the rate would be replaced by a cost adjustment charge that would be phased out over two years, and said its action applies to future contracts, not existing deals already signed.

Transmission Report, 11/10/2003-11/23/2003, Energy Info Source.

The West

RTO West Agrees on New Platform Proposal

After opposition and regulatory uncertainty slowed RTO West's plans for a regional independent grid operator in 2003, the RTO convened a small group to come up with a new platform proposal that would reflect broad consensus and have a more realistic chance of being accepted by regional stakeholders.

The Platform Drafting Group presented a new draft plan to RTO West's Regional Representatives Group (RRG) at the RRG's December meeting. During the meeting, each RRG representative supported for the proposal, though with some concerns and clarifications. Key features of the new platform proposal include:

Regional Accountability and Governance – The plan proposes staged implementation with a beginning state, an advanced target state, and an amended governance proposal for transitioning through time. It builds on the previous

RTO West governance proposal, but builds on provisions for stakeholder notification and consultation with regulators and/or state, provincial and tribal representatives. It says the RTO West Board of Directors would have clearly defined obligations to regularly meet and consult with member representative committees, including state regulators. It would strengthen regional accountability by requiring the Board to “check in” with the region when any issues on a “Special Issues List” arise. The list refers to issues that would fundamentally change the scope of the proposed RTO. Under these conditions, the Board would be required to ask the 30-member Trustee Selection Committee to vote on whether it supports the Board’s proposal. If the vote resulted in a remand, the Board would be required to vote again and could move forward only with an affirmative vote of at least 7 of the 9 Board members.

Services the Independent Entity will Provide in the Beginning State – The new proposal describes a staged approach to implementation. One key feature is that any preexisting transmission rights would stay in place. The Independent Entity would provide service based on rights that need to be held in advance by those proposing balanced schedules. It would perform power flow oversight to assure all schedules can be executed. The proposal allows for a centralized voluntary redispatch market for generators and loads, and proposes a mechanism to auction unused capacity called “medium term” rights, i.e., rights available before day-ahead pre-scheduling. The ability to use this capacity would generally come from voluntary trading of existing rights or rights obtained from ATC identified by the independent entity. Many details of the proposal have yet to be worked out.

A narrative draft of the Platform Group’s Regional Proposal is available at http://www.rtowest.com/Doc/Narrative_Clean_Dec242003.pdf.

Report Assesses Western Generation Attribute Tracking Needs

The California Energy Commission and the Western Governor’s Association have released a final consultant’s report assessing the needs for a Western Renewable Energy Generation Information System (WREGIS). The consultant held six regional workshops and conducted a survey of Western stakeholders to arrive at its recommendations.

It foresees a need for a generation attribute tracking system that looks more like the more-limited Texas model than the more-comprehensive New England model. It recommends development of an initial WREGIS that:

- ? Tracks only renewable energy certificates and does not attempt to track non-renewable energy generation attributes.
- ? Does not produce environmental disclosure labels or support state climate change and emission-based environmental policies such as Environmental Portfolio Standards.
- ? Tracks only generation from metered renewable generation (although a future goal might be to include customer-sited grid-connected systems.)
- ? Includes only those non-generating, energy-offsetting technologies that are eligible for a state regulatory program.
- ? Would rely on self-reported information from generators to fill in static fields (power plant information) and use financial settlements data to fill in dynamic fields (generation information).

It notes that although there is some interest in being able to track generation from smaller systems, development of this capability would be deferred.

Needs Assessment for a Western Renewable Energy Generation Information System, Final Report, Prepared for the California Energy Commission and Western Governors' Association, December 29, 2003. Available at: <http://www.energy.ca.gov/reports/2003-12-31-500-03-098F.PDF>.

NWCC Announces Transmission Workshops in Upper Midwest, West

The National Wind Coordinating Committee has announced its *Fourth Workshop on Transmission Planning in the Upper Midwest*, to be held in St. Paul, MN, on Wednesday, February 11, 2004. The purpose of this latest in a series of workshops in the region will be:

- ? To learn about progress on the development of regional transmission expansion in the Midwest ISO Transmission Expansion Plan (MTEP).
- ? To discuss types of analysis and input needed for development of the 2004 and 2005 Midwest Transmission Expansion Plans.
- ? Using the proposed Northeast Iowa/Southwest Minnesota transmission project as a case study, hear and begin to address perspectives from various interests about needed actions to spur transmission development in the MISO region.
- ? To capture key elements of criteria for non-reliability-based transmission expansion.

A second workshop on *Transmission Planning in the Western U.S.* is to be held in San Diego, CA, on February 26-27, 2004. The workshop will begin at 1:30 pm PST on the 26th and conclude on at approximately 4:00 pm PST on the 27th.

The workshop will address the following questions:

- ? Why do we need to pay attention to wind when we develop transmission system rules and policies?
- ? What is different about the interaction of wind energy and the electric power system?
- ? What transmission planning activities are going on right now in the West? Who is doing what, and where?
- ? How does the current transmission-related policy discussion relate to the wind market?
- ? What can be done with transmission rules and policies so that wind and conventional energy sources are treated comparably?

SeaWest Announces 22 MW Project

SeaWest WindPower and PPM Energy announced the execution of a Project Development Agreement through which the two companies will jointly develop and construct the 22.44 MW Mountain View III wind energy project in Riverside County, California. The project is located northwest of Palm Springs in the San Geronio Pass wind resource area. The project will use 34 Vestas V-47 generators, each with a capacity of 660 kW. It is expected to be operational in December 2003, and to produce enough energy for 12,000 households.

Transmission Report, 10/20/2003-11/02/2003, Energy Info Source.

Elsewhere

Southeast RTO Development Efforts Suspended

SeTrans sponsors issued a statement saying they have concluded "it is highly unlikely that consensus support and acceptance for the SeTrans RTO will be forthcoming from all applicable state and federal agencies. In light of this

determination, the Sponsors have decided unanimously to suspend the SeTrans effort.”

SeTrans sponsors include Cleco Power, Dalton Utilities, Entergy Corporation, Georgia Transmission Corporation, Jacksonville Electric Authority, Municipal Electric Authority of Georgia, Sam Rayburn G&T Cooperative, Southern Company, and the City of Tallahassee. The proposed SeTrans grid would have encompassed nearly 50,000 miles of transmission lines serving nearly 70 GW of generation in Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida, Georgia, and South Carolina.

Transmission Report 11/24/2003-12/7/2003, Energy Info Source.