

'Clean' Utilities Cite Power Auction To Dispel EPA Rule 'Train Wreck' Fears

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Analysts working with "clean" utilities favorable toward EPA's pending utility sector air, water and waste rules are citing a recent successful auction of power supply rights in the Mid-Atlantic and Midwest as proof that there is ample supply on the electricity grid and to refute claims that the rules are a "train wreck" that will harm grid reliability.

The May 13 auction allocated rights to bidders within the utility sector to supply power to the 13-state PJM electric system. Susan Tierney, an economic analyst and former Department of Energy official, sent a May 17 letter to EPA Administrator Lisa Jackson saying the results of the auction show that the region "will have ample electricity supply" after the agency's proposed utility air and water rules take effect on or before January 2015.

Republicans, some industry groups and others have described the agency's pending rules as a train wreck because they say the costly environmental protection requirements that the rules will impose will prompt some coal-fired power plants to shut down rather than comply, which in turn will create electricity grid reliability problems.

But Tierney -- who has repeatedly argued against claims of a regulatory train wreck -- wrote that the auction results show that PJM "will have more than enough" capacity to meet standards set by the North American Electric Reliability Corporation. In fact, 4 gigawatts (GW) of additional generating capacity were added to the market with this auction, including new generation and new demand-side management such as energy efficiency and demand response, she says.

Further, Tierney notes that power companies within the PJM region that do not participate in the capacity auction, like American Electric Power (AEP) and Duke-Ohio, are required to certify that they have adequate capacity to ensure reliable service, and "These companies have confirmed that they have sufficient electric capacity to meet their needs through June 1, 2015 -- more than five months after the EPA rules are expected to take effect."

Among the proposed rules facing the power sector is the Clean Air Transport Rule (CATR) cap-and-trade program to cut utilities' sulfur dioxide and nitrogen oxide emissions, an air toxics rule for utilities, a Clean Water Act rule for cooling water intake structures and first-time regulations for the disposal of coal waste.

PJM operates the country's largest integrated power market, Tierney notes, and "is home to many of the nation's coal plants, most of which will fall under the proposed [CATR] and the air toxics rules."

The PJM independent system operator market covers 13 states and is seen by some as the best-structured deregulated electricity market in the United States. "The results of this auction confirm that the 13-state PJM region will have ample electricity supply after proposed EPA air and water rules take effect on or before January 2015," Tierney wrote.

In the letter to Jackson, Tierney also cites a Jan. 18 report -- previously sent to the agency -- that she co-authored with Clean Energy Group Executive Director Michael Bradley, claiming that "electric reliability will not be compromised if the industry proactively manages the transition to a cleaner, more efficient fleet."

The Clean Energy Group is an alliance of utilities with a portfolio that includes a major proportion of power plants unlikely to be adversely affected by the EPA rules. Such companies use a greater proportion of gas and nuclear power, along with controlled coal plants, than others that use older, uncontrolled coal-fired plants that would be vulnerable to closure should environmental regulation render them uneconomic to run.

Other observers are also citing the PJM auction to downplay concerns about reliability impacts from EPA's rules. At a May 17 event in Washington, DC, on EPA's rules and grid reliability hosted by the Edison Electric Institute, Steven Fine of consulting firm ICF International argued that the auction offers an example of how electricity capacity needs can be met even in the face of stringent EPA air, water and other regulations.

Hugh Wynne, of Bernstein Research, at the event also noted the auction as evidence of the workability of EPA's rules. Even in parts of the country that will likely be most affected by EPA's rules because of heavy coal-power dependency, such as the Southeast and parts of the Midwest, reserve margins will probably not fall to dangerously low levels as coal plant retirements will take place over three years, and new gas-fired capacity will be added, Wynne argued. "I'm not one of those that believes in a train wreck," he said.

Wynne added that accepting the premise that around 50 GW of generating capacity is vulnerable as a result of EPA's rules -- an assertion made by ICF's Fine -- much of that capacity does not even need to be replaced, and demand-response and conversion to gas from coal will make the drop in capacity manageable.

Michael Schwartz, of Duke Energy, warned, however, that new generation will have to be built eventually as the economy expands, and financing new plants is currently very difficult, especially for the merchant sector, which sells energy into deregulated markets such as PJM. "It is effectively not possible to finance merchant generation today at any decent leverage," he said, referring to adverse financing terms now being offered by Wall Street.

GOP Air Concerns

Meanwhile, Republican critics of EPA's pending power sector rules are stepping up their scrutiny of the rules' potential adverse impacts on reliability or calling on the agency to delay issuing some of the rules.

Sen. Lisa Murkowski (R-AK), ranking member on the Energy & Natural Resources Committee, sent a [May 17 letter](#) to Federal Energy Regulatory Commission (FERC) Chairman Jon Wellinghoff expressing concern "about the potential impact of these rules on the reliability and affordability of the nation's electric supply."

Murkowski asks for information about ongoing FERC-EPA collaboration to model the possible reliability impacts of EPA's rules, including whether a formal inter-agency task force has been established. She further asks FERC to outline its powers to intervene to maintain electric supply reliability in the event of a possible capacity shortfall.

Murkowski also asks for any research and analysis on the reliability impacts of CATR, since the proposed rule explicitly lists electric reliability as a "key guiding principle." She further asks Wellinghoff, in his view, "would compliance with EPA or other environmental regulations excuse a violation of FERC-approved electric reliability standards? If so, should the Commission refrain from imposing penalties for these violations?"

In a separate May 17 letter, House Energy & Commerce Committee Chairman Fred Upton (R-MI) and Senate Environment & Public Works Committee ranking member James Inhofe (R-OK) ask EPA's Jackson to extend the public comment period for the agency's May 3 proposed air toxics rule for utilities. The 60-day comment period is set to close July 5 but the lawmakers ask for a further 60-day extension to allow more time to comment.

"The current, truncated schedule is insufficient to provide for a thoughtful, deliberative rulemaking process," the lawmakers write. The GOP lawmakers cite an analysis by ICF International that shows EPA's "train wreck" regulations could cost over \$300 billion in 2015 in cumulative capital costs for retrofits and new builds, with more than two-thirds of the cost required for replacement generation. "Even assuming this replacement of generation will not disrupt electric reliability, electricity rates will rise dramatically," the lawmakers argue in their letter.

The request for more time to comment on the utility air toxics rule comes after the Electric Reliability Coordinating Council (ERCC), representing the power industry, sent a May 16 letter to Jackson asking her to extend the 60-day public comment period. And the Utility Air Regulatory Group earlier this month filed a petition asking the agency to scrap and re-propose the rule due to alleged flaws in the proposal. -- *Stuart Parker*