

Electric
Reliability
Coordinating
Council

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Electric Reliability Coordinating Council Welcomes New NERC Assessment

Certified Reliability Organization Warns EPA to Consider Timing and Scope of Power-Sector Rules

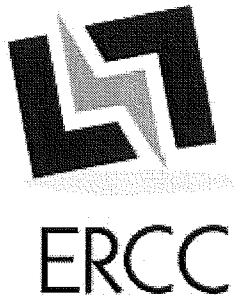
Scott Segal, director of the Electric Reliability Coordinating Council, offered the following remarks on Nov. 28, 2011:

Today, the North American Electric Reliability Corporation (NERC), the electric reliability organization certified by Federal energy regulators to establish and enforce reliability standards, issued a follow-up report on the impacts potential EPA regulations on the power sector may have on electric reliability. ERCC welcomes this timely analysis.

Like ERCC's own analysis reflected in recent communications to the Office of Management and Budget, NERC cautions the EPA to consider the "time and scope of regulation" and to take into account effects "on bulk power system reliability." Recently, in response to briefs filed in the American Nurses Association case, EPA made no attempt to defend its lack of analysis of reliability effects. The Federal Energy Regulatory Commission itself told members of the Senate Energy and Natural Resources Committee that it had no formal consultations with EPA regarding reliability concerns. To these facts, NERC finds that, "Coordination is needed among federal agencies to ensure the industry is not forced to violate one regulation in order to meet another."

Additional flexibility to date in EPA rules is not sufficient as long as EPA adheres to unreasonable scope and timing of pending regulations like the Utility MACT standard. NERC finds: "While more flexibility is provided in some proposed rules, the cumulative effect from environmental regulations may reduce reserve margins in ways that could affect bulk power system reliability, depending on the scope and timing of final regulation implementation." Specifically, NERC continues to find challenges related to timing, disparate regional impacts, outage coordination, transmission and operational issues, and uncertainty. NERC CEO Gerry Cauley is clear: "To ensure bulk power system reliability, sufficient time and certainty to schedule retrofits of more than 500 units, as well as acquire replacement resources or prepare system reinforcements is needed."

Some have claimed that the new NERC assessment shows lower projected retirements. That is simply because NERC no longer includes announced retirements in its estimates. However, even a cursory examination of announcements made regarding those retirements lends strong credibility to the notion that the threat of inflexible EPA regulations has been a major factor in causing those projected retirements. As NERC cautions, “Though this amount appears lower than the 2010 assessment projected, 25 GW of retirements have been announced since then and are no longer included in the projected retirement numbers. More importantly, industry information continues to show that significant retrofits will be needed over the next four years in order to comply with proposed utility air toxics regulations.” For a more complete picture of reliability impacts, we believe it is appropriate to include both announced and anticipated retirements occasioned by EPA power-sector rules.



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ERCC Response to Bradley/ Analysis Group Report

There is a new report out from MJ Bradley and the Analysis Group on the reliability implications of US EPA rules on the power sector. Unsurprisingly, the report finds that the rules have little impact. From the Electric Reliability Coordinating Council perspective, we want you to have a few points to consider:

1. We disagree strongly with the reports position on the role of reserve margin. The generation and transmission of power takes place on an interrelated grid. Reserve margin assessments are based in part on the ability to back up power from one location with power from another. To say that the impact of a plant's retirement is within reserve margin fails to take into account the probability that the plant's continued operation – even if only occasional – may be necessary for the stability of operations elsewhere.
2. The report gives no greater certainty that areas most reliant upon coal-fired capacity can avoid profound price, supply, and reliability concerns.
3. The report does not adequately address extraordinary events. Only the additional peak-load capacity supplied by coal-fired facilities are likely to provide the resilience necessary to address potential weather-related blackouts or even cyber-security threats to critical infrastructure. And last, the facile reliance in these reports on EPA emergency authorities fails to take into account the continued disagreements between EPA and the U.S. Department of Energy regarding whether or not emergency orders actually forestall Agency enforcement actions.
4. The report cites NERC analyses as authoritative on reserve margins. Of course, we understand that NERC intends to update their reliability scenario assessment this week. In the past, NERC analyzed the combined impact on reliability of four key EPA rules (Utility MACT, interstate transport rule, 316(b), coal combustion residuals disposal regulations) and concluded that as much as 78 GW of generating capacity is at risk for retirement by 2015.
5. Those on the frontlines do not agree with this report. Concern with reliability is widely shared by some 27 states as reflected in briefs filed in the deadline case regarding Utility MACT, letters from governors, and rulemaking comments filed by public service

commissioners and other state officials. For example, attorneys general representing half the states noted that Utility MACT “has the potential to undermine significantly the reliability of our Nation’s electrical supply and significantly increase the cost of electricity to the consumer.” *Amer. Nurses Ass’n v. Jackson*, Civ. No. 1:08-CV-02198-RMC.

6. Grid operators disagree. The Midwest ISO (MISO), on October 31, 2011, released a new study reviewing the impacts of four major EPA rules, including the Utility MACT. The costs of complying with these rules over the next two decades would be as high as \$33 billion in the Midwest region and would impact some 200 coal-fired units representing 32,000 MW of capacity –resulting in retirement of up to 12,652 MW of that capacity. Joint comments on Utility MACT were filed by MISO, along with four other RTOs (ERCOT, NYISO, PJM and SPP). In part, they observed that “if the impact of the EPA rulemakings increases retirements to the point of creating reliability violations without providing for adequate time to respond to the reliability concerns, this could undermine the reliability of the electric grid for an unacceptable prolonged period.
7. Among the funders of this report that are cited in the last section, all of the statements come from their earnings reports. Why? Because these companies have a significant financial incentive to support the least economical rules. By increasing the costs of using coal, these companies hope to increase the clearing price of energy – an important part of their business models. Unfortunately, this motivation is not in the best interests of electric reliability or consumer protection.