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Before the
FEDERAL ENERGY REGULATORY COMMISSION
1005th Commission Meeting

Thursday, May 15, 2014
Hearing room 2C
888 First Street, N.E.
Washington, D.C.20426

The Commission met in open session, pursuant to
notice, at 10:02 a.m., when were present:

COMMISSIONERS:

CHERYL A. LaFLEUR, Acting Chairwoman
PHILIP MOELLER, Commissioner
JOHN NORRIS, Commissioner
TONY CLARK, Commissioner

FERC STAFF:

KIMBERLY D. BOSE, Secretary
JEFF WRIGHT, Director, OEP
MICHAEL McLAUGHLIN, Director, OEMR
MICHAEL BARDEE, Director, OER
JOSEPH McCLELLAND, Director, OEIS
DAVID MORENOFF, Acting General Counsel
JAMIE SIMLER, Director, OEPI
NORMAN BAY, Director, OE

1 Discussion Items:

2 E-5 & E-6:

3 PRESENTERS:

4 PAIGE BULLARD, OGC and

5 BECKY ROBINSON, OEP,

6 ACCOMPANIED BY: HADAS KOZLOWSKI, OGC,

7 BRIAN GISH, OGC and

8 CHRISTOPHER THOMAS, OEMR

9 G-1:

10 PRESENTERS:

11 DAVID FAERBERG, OGC and

12 FERNANDO RODRIGUEZ, OEMR

13 A-3:

14 PRESENTERS:

15 DEVIN HARTMAN, OE and

16 ERIC PRIMOSCH, OE, and

17 LOUISE NUTTER, OER

18 ACCOMPANIED BY: DEEPAK RAMLATCHAN, OE

19 CHRIS ELLSWORTH, OE and

20 KENT DAVIS, OER

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24 COURT REPORTER: Jane W. Beach, Ace-Federal Reporters, Inc.

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1 P R O C E E D I N G S

2 (10:02 a.m.)

3 ACTING CHAIRWOMAN LaFLEUR: Good morning, This is
4 the time and the place that has been noticed for the open
5 meeting of the Federal Energy Regulatory Commission to
6 consider the matters that have been duly posted in
7 accordance with the Government in the Sunshine Act.

8 Please join us in the Pledge of Allegiance.

9 (Pledge of Allegiance recited.)

10 ACTING CHAIRWOMAN LaFLEUR: Well good morning,
11 everyone. Thank you for coming. It has been another full
12 month here at FERC. We have issued 51 Notational Orders
13 since the April Open Meeting.

14 I want to note this morning another
15 accomplishment that has occurred since the April meeting--
16 somewhat more for the computer-oriented in the room,
17 perhaps, but FERC's new Electric Quarterly Report, our EQR
18 software, has been up and running for more than a full
19 month, and the first filing deadline under the new system
20 has passed.

21 After many months of work, two technical
22 conferences, and quite a bit of heartburn, the new EQR
23 filing software went live on April 1, 2014. Since then,
24 there have been more than 2,300 successful filings using the
25 new system, and data processing on our end that used to take

1 weeks can now take hours.

2 Like any rollout of a new computer system and
3 interface, this was a significant undertaking requiring the
4 hard work of staff, particularly from the Information
5 Technology Group and the Department of Energy Market
6 Oversight in the Office of Enforcement, supported by offices
7 across the Commission.

8 I want to thank the team for their hard work, and
9 thank all of the office directors who dedicated the
10 resources to the project, particularly Norman, Anton, and
11 our Chief Information Officer Sanjay Sardar.

12 Finally, thank you to the industry users that
13 assisted us in the development of the new system, including
14 EEI for their assistance in coordinating efforts with
15 industry participants. We hope that the new system will
16 provide more accurate and timely data and provide added
17 transparency to the markets.

18 Next, I want to take a moment to recognize one of
19 the Commission's truly outstanding employees. Sadly, Mason
20 Emmett, the Deputy Director of the Office of Energy Policy
21 and Innovation, is leaving the Commission to join NextEra
22 Energy.

23 Mason has served in leadership positions at the
24 Commission since 2008, including as Associate Director of
25 the newly formed Office of Energy Policy and Innovation,

1 starting in 2009, and then Deputy Director since 2012.

2 He has been instrumental in the development and
3 leadership of OEPI since its inception. He has also been a
4 leader in many of our initiatives, from Order 1000 to order
5 745, to orders that don't have numbers yet--

6 (Laughter.)

7 ACTING CHAIRWOMAN LaFLEUR: --like gas-electric
8 coordination.

9 Mason has communicated endlessly with industry,
10 academia, and other policymakers on all of these efforts.
11 Putting it another way, Jamie Simler noted that Mason has
12 always been willing to accept any speaking engagement
13 anywhere, anytime--

14 (Laughter.)

15 ACTING CHAIRWOMAN LaFLEUR: --on any amount of
16 notice, for any audience--one of the many things we will
17 truly miss. Mason's ability to explain complex issues
18 clearly--which I can attest to myself because he has
19 explained a lot to me--and to find common ground among
20 differing positions has been critical to the success of many
21 of our efforts.

22 In recognition of his exemplary service to the
23 Commission, I want to call him forward to present him with
24 the Chairman's Medal.

25 (Applause and standing ovation.)

1 (Presentation made.)

2 ACTING CHAIRWOMAN LaFLEUR: Although I'm loving
3 giving these awards, but I don't want anyone else to leave.
4 So I don't love it that much.

5 (Laughter.)

6 ACTING CHAIRWOMAN LaFLEUR: Turning to the items
7 on the agenda, I just want to say a few words about Items E-
8 1, -2, and -3, three of the Order 1000-related items on the
9 Consent Agenda today.

10 Today's orders on rehearing and compliance
11 address a wide variety of issues and continue the
12 Commission's ongoing work to implement Order 1000 in the
13 Mid-Atlantic, Midwest, and Southeast.

14 In most respects, these Orders deny rehearing.
15 However, one issue on which we grant rehearing concerns when
16 a region may consider state laws and regulations and rights
17 of way in the regional planning process.

18 Importantly, Order No. 1000 was clear that
19 nothing in it was intended to limit, preempt, or otherwise
20 affect state or local laws or regulations with respect to
21 the construction of transmission facilities.

22 Today's decisions on the MISO, PJM, and South
23 Carolina compliance filings grant rehearing and find that
24 the regional planning processes may consider state and local
25 laws at stages other than the evaluation stage, including

1 the project submission stage.

2 This decision, after full consideration of the
3 arguments presented on rehearing, is based on a
4 determination that a failure to consider such laws as a
5 threshold issue could lead to inefficiencies and delays in
6 the development of transmission.

7 Indeed, refusing to allow the consideration of
8 such laws and regulations could result in planning process
9 that considers projects that are explicitly prohibited by
10 state law.

11 I believe that such inefficiency and delay
12 conflicts with one of the primary goals behind Order 1000,
13 which was intended to address our concerns over inefficient
14 transmission development due to lack of regional
15 coordination.

16 Eliminating these inefficiencies will help assure
17 that transmission needed for reliability, economic, and
18 public policy reasons is planned and constructed for
19 customers.

20 Colleagues, opening comments?

21 COMMISSIONER MOELLER: Thank you, Acting Chair
22 LaFleur. I too want to express congratulations to the team
23 related to the EQR filings. I know we were a little
24 concerned that it might be a rerun of healthcare.gov, but
25 fortunately through the hard work of a lot of people it has

1 been much, much more seamless and an easier transition than
2 that alternative. So again, congratulations.

3 Since we last met, I have had a chance to meet
4 with some of our international colleagues. First, meeting
5 with the National Energy Board and the regulators from
6 Mexico. If you're not aware of what's happening in Mexico,
7 they're making a lot of progress in terms of expanding their
8 domestic oil and gas production. It will take awhile, but
9 they need to be congratulated as well.

10 And with the NEB, by the time we have our meeting
11 next month the chairman of the NEB, a good friend of this
12 Agency and one of the really good people in the energy
13 industry, Gaetan Caron, will be retired after probably 35
14 years in that position. So there will be new leadership at
15 the National Energy Board, both a new Chair and a new Vice
16 Chair. And we have such a critical relationship with Canada
17 because of the North-South and South-to-North relationship
18 that we have, and the fact that the Provinces don't have
19 that much transfer capability between them, they are really
20 connected with us through those lines. And I hope that as a
21 Commission we can get even closer to the Canadian
22 regulators and the National Energy Board to maintain open
23 communication and serving the citizens for the utilities and
24 entities that we regulate.

25 And then also, we had our annual meeting with our

1 EU counterparts. They are doing some amazing things in
2 Europe, moving toward a single clearing price for most of
3 the Continent. Some incredibly hard work. They still have
4 a ways to go, but again keeping those relationships open
5 where they can learn from us and we can learn from them is
6 something that I hope will remain a high priority for this
7 Commission.

8 I'll let the Order 1000 orders speak for
9 themselves, and thank you for the chance to talk.

10 ACTING CHAIRWOMAN LaFLEUR: Thank you,
11 Commissioner Moeller, and thank you for your willingness to
12 take on those international assignments. Actually, until I
13 became Acting Chair I had no idea how many international
14 invitations we got, and I couldn't possibly, even--we
15 couldn't possibly as a Commission even do the very most
16 important without the help of all three of my colleagues.
17 So thank you.

18 Commissioner Norris?

19 COMMISSIONER NORRIS: Yes, thank you.

20 Let me also add my congratulations and thank you
21 to Mason for great work, and your point is well taken,
22 Jamie. It seems like everywhere I showed up, or many times
23 I showed up and Mason would be there to speak. I'm like:
24 Why did they send me?

25 (Laughter.)

1 COMMISSIONER NORRIS: He can make a lot more
2 sense of what we're doing and better explaining it. But so
3 I ran into him a fair amount there on the road, and he
4 represented FERC extremely well and provided great objective
5 policy analysis for the Commission. So you will be greatly
6 missed, but you are still in the sector so I am sure we will
7 hear from you from time to time with your continued
8 objective analysis.

9 (Laughter.)

10 COMMISSIONER NORRIS: I have one statement I
11 guess I've just chosen to read that I will post, I think
12 maybe post it now, on my website regarding the last couple
13 of meetings where I made some statements about the nuclear
14 sector.

15 Let me just say, as many of you who follow FERC
16 are aware, I have spent the past few months encouraging a
17 dialogue regarding the viability of our country's nuclear
18 fleet, and hoping to generate ideas on how best to ensure
19 the continued utilization of nuclear energy for our electric
20 needs.

21 This remains my main objective. We need to
22 maintain our nuclear fleet as it is a valuable baseload and
23 carbon-free resource. We also need it for the development
24 of wind and other forms of renewable energy. I believe our
25 electric system benefits from a diverse fuel mix that

1 includes nuclear and renewable energy.

2 When this dialogue started publicly at our March
3 meeting--some of you may identify with this; sometimes you
4 start a dialogue and people read into it what they want to
5 hear, but I feel a need to provide some clarity today--I
6 sought to highlight the financial situation of our nuclear
7 fleet and to stress that this situation needs to be
8 addressed.

9 I emphasized the critical role that nuclear
10 energy should play in our energy future in terms of
11 reliability, price stability, and its non-carbon attributes.
12 In doing so, I cited a number of explanations I had heard
13 from the revenue shortfall the nuclear fleet is
14 experiencing, including abundant, low-cost gas supply, flat
15 demand growth, and negative pricing.

16 At the meeting I encouraged parties to provide me
17 with additional information on this issue and offer
18 potential solutions to this dilemma. In the past two
19 months, I have heard from a number of people and
20 organizations with different and valuable perspectives on
21 this issue.

22 Based on those meetings, I thought it important
23 to provide my updated thinking on this debate. AWEA offered
24 a report that demonstrated the infrequency of negative
25 pricing in Day-Ahead markets and the minimal impact of

1 negative pricing on nuclear fleets.

2 Excelon responded that an examination of negative
3 pricing cannot ignore the Real-Time energy markets. I agree
4 that we need to look at both the Day-Ahead and Real-Time
5 energy markets, but based on the information I have
6 received, however, I believe that larger issue is not
7 negative pricing but rather the additional supply of new,
8 low-cost energy in recent years from both wind and low-cost
9 gas that has contributed to lower energy prices and reduced
10 revenue for the nuclear units.

11 After these discussions, I have concluded that
12 the argument regarding the impact of negative pricing on
13 nuclear viability is a distraction and not productive to the
14 larger conversation regarding how to ensure that the
15 existing nuclear fleet is maintained.

16 I concluded that negative pricing is having a
17 very small impact on the nuclear fleet. It certainly would
18 not pass a "but-for" test. That is to say, I do not believe
19 that but-for negative pricing the currently troubled nuclear
20 units would be economic.

21 The focus on negative pricing has revealed a
22 different problem that should be addressed. New
23 transmission is needed to relieve transmission bottlenecks
24 for nuclear and wind energy are both adversely impacted.

25 It appears that negative pricing occurs in

1 transmission-constrained generation pockets. Commission
2 actions like Order 1000 and the planning activities of the
3 Regional Transmission Organizations are helping to address
4 these congestion issues, but the continued existence of
5 negative pricing pockets suggest that more work still needs
6 to be done.

7 Consumers should have access to competitively
8 priced energy that both wind and nuclear can provide.
9 Transmission development is the better and more pro-active
10 solution to the negative pricing, rather than forcing that
11 issue into the debate on the merits of the Production Tax
12 Credit.

13 It is important to note that subsidies have
14 existed for all forms of energy in this country. The
15 additional supply of new energy, regardless of whether it is
16 subsidized or not, will always impact the existing energy
17 supply. That does not make the PTC a bad policy.

18 I believe that our energy policies should focus
19 on promoting new wind, solar, and other forms of renewable
20 energy, and maintaining our existing nuclear fleet, as these
21 resources bring diversity to our fuel mix and are consistent
22 with our Nation's carbon-reduction objectives.

23 The current low gas prices and increased reliance
24 on our gas fleet pose the biggest economic challenge to our
25 nuclear fleet. This leads to a much broader discussion

1 regarding fuel diversity, pipeline infrastructure and
2 operations, markets, and more, but I will leave that to
3 another day.

4 We have much more to talk about, and much more to
5 do on this very important issue. So I'm sure the dialogue
6 will continue, but I will post that statement today for
7 folks to review and am happy to continue the dialogue on
8 this important issue.

9 Moving to my second issue--I apologize for taking
10 so much time this morning, but I felt it necessary to
11 provide that thought--and secondly, to explain my dissent on
12 today's orders.

13 Today the Commission issues three Orders that
14 change the calls in Order 1000 to allow non-incumbents to
15 essentially be excluded from the transmission planning
16 process due to consideration of state law.

17 In Order 1000-A, the Commission stated: It would
18 be an impermissible barrier to entry to require as part of
19 the qualification criteria that a transmission developer
20 demonstrate that it has or can obtain state approvals
21 necessary to be eligible to propose a transmission facility,
22 yet that is precisely what today's Order enabled these
23 planning regions to do.

24 This is a fundamental change in direction that I
25 cannot support. There are some very good utilities out

1 there, including excellent transmission providers,
2 incumbents as well as non-incumbents. There are also some
3 that are not equally as good. Some continue to lack
4 innovation, are more interested in preserving--in pursuing
5 preservation of the status quo which protects them from
6 competition. Today we are saying that's okay, and
7 preservation and protection of incumbents is more important
8 than competition.

9 No single entity, whether incumbent or
10 non-incumbent, has a lock on design, construction, or
11 operation of transmission, or coming up with
12 non-transmission alternatives. Incumbents already have the
13 built-in advantage of knowledge of the system, including
14 issues of reliability and economic congestion. If they
15 cannot come up with a better solution for transmission
16 needs, there are likely reasons for that. They may lack
17 innovation. They may have conflicts of interest, just to
18 name a couple of examples.

19 Today we are saying that's okay, and let
20 consumers bear the burden for their shortcomings. States
21 will have the final decision on who can build transmission
22 in their states, according to their state laws, but by
23 preventing the planning region and the states from seeing
24 and having the opportunity to evaluate alternatives we do
25 the states and consumers a disservice.

1 Thank you.

2 ACTING CHAIRWOMAN LaFLEUR: Thank you,
3 Commissioner Norris.

4 Commissioner Clark?

5 COMMISSIONER CLARK: I will yield a little bit of
6 time back to the agenda and just welcome everyone here this
7 morning. Thanks.

8 ACTING CHAIRWOMAN LaFLEUR: Commissioner Moeller?

9 COMMISSIONER MOELLER: Well, John, I liked a lot
10 of your statement, particularly the transmission--

11 (Laughter.)

12 COMMISSIONER MOELLER: --but you started the
13 dialogue, so I am going to keep it going. I don't think the
14 negative pricing is a distraction. I think it is a very
15 relevant part of this debate. It is not the only part of
16 the debate. You noted a lot of the other factors that are
17 stressing the nuclear fleet, but I think just a production
18 incentive, whether it's good for society or not, does have
19 impacts on competitive markets.

20 And so I would hope that is still part of this
21 discussion. But I am glad you opened it up, because you've
22 got a dialogue going that has people inspired.

23 ACTING CHAIRWOMAN LaFLEUR: Thank you.

24 Madam Secretary, I think we are ready to move to
25 the Consent Agenda.

1 SECRETARY BOSE: Thank you, Madam Chairman, and
2 good morning. Good morning, Commissioners; good morning,
3 Madam Chairman.

4 Since the issuance of the Sunshine Act Notice on
5 May 8th, no items have been struck from this morning's
6 agenda. Your Consent Agenda is as follows:

7 Electric Items: E-1, E-2, E-3, E-4, E-7, and
8 E-8.

9 Miscellaneous Items: M-1 and M-2.

10 Gas Items: G-1--excuse me, G-2 and G-3.

11 Hydro Items: H-1 and H-3.

12 Certificate Items: C-1.

13 As to E-1, Commissioner Norris is dissenting in
14 part with a separate statement. As to E-2, Commissioner
15 Norris is dissenting in part and concurring in part with a
16 separate statement. As to E-3, Commissioner Norris is
17 dissenting in part and concurring in part with a separate
18 statement.

19 We will now take a vote on this morning's Consent
20 Agenda. The vote begins with Commissioner Clark.

21 COMMISSIONER CLARK: Aye.

22 SECRETARY BOSE: Commissioner Norris.

23 COMMISSIONER NORRIS: Noting my dissents and
24 concurrences in E-1, -2, and -3, I vote aye.

25 SECRETARY BOSE: Commissioner Moeller.

1 COMMISSIONER MOELLER: Aye.

2 SECRETARY BOSE: And Chairman LaFleur.

3 ACTING CHAIRWOMAN LaFLEUR: I vote aye.

4 SECRETARY BOSE: We are now ready to move on to
5 the Discussion Items for this morning. The first matter
6 before us is a joint presentation on Discussion Item E-5 and
7 E-6 concerning Docket Nos. ER11-2127-003; and RM14-11-000,
8 respectively. There will be a presentation by Paige Bullard
9 from the Office of the General Counsel, and Becky Robinson
10 from the Office of Energy Policy and Innovation. They are
11 accompanied by Hadas Kozlowski and Brian Gish from the
12 Office of the General Counsel, and Christopher Thomas from
13 the Office of Electric Market--Energy Market Regulation.

14 MS. BULLARD: Good morning, Acting Chairman and
15 Commissioners:

16 E-5 is a draft order on rehearing and compliance
17 filing based on existing precedent regarding the required
18 submission of an Open Access Transmission Tariff by Terra
19 Gen Dixie Valley LLC.

20 E-6 is a proposal that if made final by the
21 Commission would change its policy prospectively, as will be
22 discussed next.

23 The draft order in E-5 grants in part and denies
24 in part Terra-Gen's request for clarification and rehearing.
25 In this draft order, the Commission would reject Terra-Gen's

1 claim that the Commission lacks jurisdiction under Sections
2 205 and 206 of the Federal Power Act to require the filing
3 of an Open Access Transmission Tariff.

4 The draft order also clarifies that Terra-Gen's
5 use of its interconnection facilities' capacity to serve new
6 increments of its own needs must be on a not unduly
7 discriminatory basis under rates and terms specified in
8 Terra-Gen's Open Access Transmission Tariff. The Order also
9 grants clarification regarding certain incremental
10 transmission pricing principles.

11 In addition, the draft order finds that Terra-
12 Gen's proposed tariff sheets partially comply with the
13 Commission's directives and orders a further compliance
14 filing.

15 Finally, in keeping with recent precedent, the
16 draft order reverses the requirement in a December 2, 2011,
17 Order in this proceeding that, in order to obtain priority
18 rights to the Dixie Valley Line, Terra-Gen's affiliate, New
19 York Canyon, must acquire ownership rights to the line.

20 This concludes our presentation for E-5. Becky
21 Robinson will now present E-6.

22 MS. ROBINSON: E-6 is a draft Notice of Proposed
23 Rulemaking on Open Access and Priority Rights on
24 Interconnection Customer's Interconnection Facilities.
25 These facilities are often referred to as generator lead

1 lines or generator tie lines, and are generally constructed
2 to enable a generation facility, or multiple generation
3 facilities, to transmit power to the integrated transmission
4 grid.

5 In a series of cases since Order No. 2003,
6 parties have raised issues regarding the extent to which, if
7 at all, third parties should be able to have open access for
8 transmission on the Interconnection Customer's
9 Interconnection Facilities.

10 In these cases, the Commission has required the
11 interconnection customer to provide open access transmission
12 service over its facilities, but has also given the
13 interconnection customer an opportunity to reserve excess
14 capacity on these facilities for its own future use,
15 provided it adequately demonstrates its plans to use such
16 capacity.

17 Following a technical conference, a Notice of
18 Inquiry, and informal industry outreach, the draft Proposed
19 Rule preliminarily finds that the Commission's policies that
20 require an owner of Interconnection Customer's
21 Interconnection Facilities to make excess capacity available
22 to third parties unless it can justify its planned use of
23 the line may impose risks and burdens on generators and
24 create regulatory inefficiencies that are not necessary to
25 achieve the Commission's open access goals.

1 As such, the draft Proposed Rule preliminarily
2 finds that the Commission requirements for achieving
3 nondiscriminatory access over Interconnection Customer's
4 Interconnection Facilities should be reformed to reduce
5 regulatory burdens and promote development of generating
6 facilities while continuing to ensure open access to
7 transmission facilities by eligible transmission
8 customers.

9 The draft Proposed rule would, first, give a
10 blanket waiver of the Open Access Transmission Tariff, Open
11 Access Same-Time Information System, and Standards of
12 Conduct requirements to any public utility that is subject
13 to such requirements solely because it owns, controls, or
14 operates Interconnection Customer's Interconnection
15 Facilities, and that sells electric energy from its
16 generating facility.

17 Second, the draft Proposed Rule would find that
18 those seeking transmission service over Interconnection
19 Customer's Interconnection Facilities that are subject to
20 the proposed blanket waiver must follow procedures
21 applicable to requests for interconnection and transmission
22 service under Sections 210, 211, and 212 of the Federal
23 Power Act.

24 And third, the draft Proposed Rule would
25 establish a five-year safe harbor period during which there

1 would be a rebuttable presumption that it is in the public
2 interest for an entity subject to the blanket waiver to
3 preserve use of any excess capacity on its Interconnection
4 Customer's Interconnection Facilities to serve its own or
5 its affiliates' future phased generator additions or
6 expansions.

7 This concludes our presentation of E-6. We are
8 happy to answer any questions you may have.

9 ACTING CHAIRWOMAN LaFLEUR: Well thank you very
10 much for that, and thank you to both teams for your hard
11 work on these orders.

12 I am very happy that we are in a position to vote
13 out the NOPR today on the ICIF, the Interconnection Customer
14 Interconnection Facilities. I went to the first technical
15 conference on this it seems like a very long time ago, and
16 that reflects that these are complicated issues.

17 In the NOPR we put forth a proposal for
18 comment--we hope we get a lot of comment--that tries to
19 strike a careful balance between the benefits and the
20 burdens to both the Interconnection Facilities and the
21 Interconnecting Utilities.

22 My question to the team is about the experience
23 under the existing regime, before the new rule, that gave
24 rise to the need for the change in regulation. Could you
25 explain how many waivers we have granted to these

1 Interconnection Facilities from our OATT, OASIS, and
2 Standards of Conduct requirements? It seems like there's
3 been quite a few that I've voted on. And, conversely, how
4 many times has a generator actually come in and asked for
5 access that triggered the requirement to file an OATT once
6 we've given a waiver?

7 MS. ROBINSON: Sure. In a recent five-year
8 period, from 2009 to 2014, the Commission issued
9 approximately 80 Orders granting waiver of the
10 OATT/OASIS/Standards of Conduct to owners of Interconnection
11 Customer's Interconnection Facilities. And in total, we
12 have had four instances where a third party requested access
13 to those types of facilities and so the owner had to file an
14 OATT in that case--in those cases.

15 ACTING CHAIRWOMAN LaFLEUR: Well thank you. I
16 think that is very helpful in demonstrating the basis for
17 the rule. I mean, one of the things we all try to do is be
18 alert to trends, and when we are issuing repeated waivers
19 again and again you might think maybe there's something
20 wrong with the need for people to have to get these, if
21 there's a--I'm not a quick math--but a very high ratio
22 between the number of waivers and the number of times that
23 service is requested.

24 But again, we hope we have provided a route for
25 people to request that service, and that is what we want

1 comment on.

2 Colleagues?

3 COMMISSIONER MOELLER: Just briefly. The Terra-
4 Gen Order has been hanging out in limbo for quite awhile, so
5 I thought it was appropriate that we call both of these
6 items together because they're related. I appreciate the
7 staff's explanation of each.

8 COMMISSIONER NORRIS: Thanks. I agree with
9 getting these out, and it is great we are finding ways to
10 agree today, too.

11 (Laughter.)

12 COMMISSIONER NORRIS: Getting the Terra-Gen Order
13 out at the same time was important, and, like you Cheryl,
14 those past technical conferences and looking at this issue
15 does require a great deal of balance respecting the
16 principles of OATT but also kind of, if you will, the
17 awkward fit with Interconnection Customer's Interconnection
18 Facilities, and the gen tielines, making this all work so we
19 get the right transmission system built. So I think we are
20 taking a great step forward today with this NOPR and look
21 forward to comments and input on this as we strive to get
22 this balance right. But I think today's Order is a good
23 step in that direction.

24 Thanks.

25 ACTING CHAIRWOMAN LaFLEUR: Commissioner Clark?

1 COMMISSIONER CLARK: Yes. Thanks for the work on
2 this. This is something that I know we all as Commissioners
3 have heard about over the last several years, which is
4 admittedly a tension between Open Access and the other
5 desire that the Commission has, which is investment in
6 needed infrastructure projects. And there can exist that
7 tension.

8 I think this NOPR is a step forward in the right
9 direction. I appreciate all the work that has been done on
10 it, but I also look forward to hearing comments that we get
11 back from those who are taking a look at it. Let us know if
12 you think we missed the mark a little, if we went astray one
13 way or another, but I think as an initial strawman for
14 comments and to solicit comments it is a great effort. So
15 thanks for all the work you did.

16 ACTING CHAIRWOMAN LaFLEUR: Thank you.

17 Madam Secretary, I think we are ready for the
18 vote.

19 SECRETARY BOSE: And, Madam Chairman, we will be
20 taking a vote on these items together. The vote begins with
21 Commissioner Clark.

22 COMMISSIONER CLARK: Aye.

23 SECRETARY BOSE: Commissioner Norris.

24 COMMISSIONER NORRIS: Aye.

25 SECRETARY BOSE: Commissioner Moeller.

1 COMMISSIONER MOELLER: Aye.

2 SECRETARY BOSE: And Chairman LaFleur.

3 ACTING CHAIRWOMAN LaFLEUR: Aye.

4 SECRETARY BOSE: The next item for discussion and
5 presentation is G-1 concerning North Dakota Pipeline
6 Company's Sandpiper Project. There will be a presentation
7 by David Faerberg from the Office of the General Counsel,
8 and Fernando Rodriguez from the Office of Energy Market
9 Regulation.

10 MR. FAERBERG: Good morning, Madam Chairman,
11 Commissioners:

12 G-1 is a petition for declaratory order in which
13 we approve North Dakota Pipeline's Sandpiper Project. The
14 Sandpiper Project is an expansion and extension of the
15 current North Dakota Pipeline system that will give Bakken
16 crude producers access to a new interconnection point at
17 Superior, Wisconsin, where they can access downstream
18 markets throughout the country.

19 The committed rates in this proceeding will be
20 based on the transportation service agreements that were
21 filed by the shippers during the open season. Uncommitted
22 rates will be recovered on a cost-of-service basis.

23 An earlier petition for the Sandpiper Project was
24 denied by the Commission because the pipeline did not put
25 forth a proposal that was appropriate for consideration in a

1 declaratory order proceeding.

2 The current proposal complies with the
3 Commission's policies and precedents and has the following
4 elements:

5 There was a widely publicized open season;

6 Ten percent of the capacity was reserved for
7 uncommitted shippers;

8 Committed shippers signed their transportation
9 service agreements during the open season.

10 In addition, committed priority shippers pay a
11 premium over uncommitted shippers in order to obtain service
12 during pro rationing situations.

13 Committed non-priority shippers will be subject
14 to pro rationing but may receive a discounted rate.

15 Finally, the noncommitted shippers' shipping
16 history will be based on either the greater of their
17 committed volumes or their average shipments during the
18 applicable period.

19 As stated in the Order, the Commission does not
20 regulate the entry and exit of pipelines into the business,
21 so we did not make any determinations concerning whether the
22 pipeline is needed.

23 Since the 1996 Orders in the Express Pipeline
24 cases, the Commission has allowed pipelines to file
25 proposals for committed rates in order to obtain the

1 financial commitments necessary to develop further pipeline
2 infrastructure.

3 The Commission has allowed committed rates for
4 new pipelines, pipeline expansions, and reversals or
5 reconfigurations of existing pipelines to serve new markets
6 or to meet changing market conditions.

7 And now I will turn the presentation over to
8 Fernando Rodriguez for some more general information on
9 trends in the oil pipeline industry.

10 MR. RODRIGUEZ: Good morning.

11 According to the Energy Information
12 Administration, U.S. production of crude from shale has
13 increased dramatically in the past few years, from less than
14 1 million barrels a day in 2010 to more than 3 million
15 barrels a day in 2013.

16 Current estimates by the Energy Information
17 Administration expect U.S. total crude production to
18 increase from 7.4 million barrels a day in 2013 to about--to
19 more than 9.2 million barrels a day by 2015. As a
20 consequence, direct capital investment in the U.S. crude
21 oil, natural gas liquids, and natural gas infrastructure has
22 increased over the past four years by about 60 percent, from
23 \$56 billion in 2010 to about \$90 billion in 2013.

24 Since 1996, the Commission has granted petitions
25 for declaratory order to facilitate the goal of encouraging

1 energy infrastructure.

2 The Commission has received and acted upon more
3 than 30 petitions for declaratory order in the past 3 years,
4 representing approximately 15,000 miles of pipeline
5 infrastructure.

6 Companies requesting petitions for declaratory
7 orders prior to construction have increased five-fold from
8 2011 to 2013. This indicates that the U.S. is experiencing
9 its most significant build-out of oil pipeline
10 infrastructure since the 1960s, stemming from shale play
11 development in areas of the country traditionally not known
12 for significantly crude oil, natural gas liquids, and
13 natural gas production.

14 Commission staff has worked with industry and
15 interested parties to facilitate transportation of these
16 commodities in the most efficient manner under the
17 Interstate Commerce Act.

18 However, not all crude oil pipelines proposals
19 are built, primarily because pipelines compete for shippers
20 with other pipelines as well as other modes of
21 transportation such as barges, trucks, and railroads.

22 ACTING CHAIRWOMAN LaFLEUR: Well thank you very
23 much. I would like to thank the team for this Order and
24 thank you, David and Fernando, for explaining the Order and
25 the background.

1 It may surprise no one that this Order was called
2 for discussion by the Dakota dude to my right--

3 (Laughter.)

4 ACTING CHAIRWOMAN LaFLEUR: --so I think I will
5 give Commissioner Clark the first word.

6 COMMISSIONER CLARK: Thanks, Madam Chairman. And
7 thanks for pulling this up on the agenda for discussion.

8 And thanks, David and Fernando, for the report.

9 The reason that I wanted to put this one on is
10 because I thought it was a fairly--first of all, it's a
11 large project dealing with the Williston Basin and Bakken
12 Crude Takeaway.

13 Also I think it is fairly--it offered an
14 opportunity to talk about the types of projects, not
15 necessarily just this one specifically, but generally that
16 are being developed and that may need to be developed to
17 deal with shale oil takeaway needs, not just in the Bakken
18 but in other parts of the country as we see expanded crude
19 oil production. I thought it offered a great opportunity to
20 kind of lay out some of the statistics, the PDOs that we're
21 seeing here at the Commission, the amount of investment
22 dollars that we're seeing as well.

23 Just one question that sort of has two sides to
24 it that I will tee up for you, which is:

25 As the Commission thinks about things to consider

1 going forward, understanding that we have seen an uptick in
2 PDOs; that we are going to be seeing probably an uptick in
3 this type of investment for the next several years, could
4 you talk a little bit about things that you are hearing
5 first from the shipper side of the equation that the
6 Commission might want to be thinking about and aware of in
7 terms of emerging issues, but then also talk a little bit
8 about things that the Commission might think about from the
9 pipeline perspective, things that we might do to ensure that
10 there is access to capital at lower cost so that these can
11 be facilitated in a way that makes sense, not just for the
12 pipeline but for ultimately consumers and shippers who will
13 pay lower costs, that they have access to that sort of
14 capital?

15 MR. FAERBERG: With respect to the first
16 question, I think that the pipelines and shippers who are
17 the committed shippers are generally satisfied with the
18 process. I don't think we've heard any complaints about our
19 timing or how we process the orders.

20 I think any dissatisfaction we may have have come
21 from people who would fall into the sort of uncommitted
22 shipper community who have concerns that pipelines may be
23 over-recovering the costs from them, or that they may not be
24 in a position to take advantage of committed rates because
25 of the length or volume commitments.

1 I think on the second question concerning capital
2 costs, obviously we don't have any certificate authority so
3 we don't get involved in the building of the pipeline. I
4 think the most important thing that we do is to act on the
5 petition for declaratories in a timely manner. Generally
6 the pipelines will ask for some sort of a requested-action
7 date, and that is generally tied to their making their
8 financial commitments and their purchasing decisions.

9 So I think that is the way that we can, you know,
10 at least give them some certainty going forward.

11 COMMISSIONER CLARK: Great. Thanks. This agenda
12 item happens to be timely, as well, because I just noticed
13 in the Reports From The Prairie that the state just released
14 its latest statistics for the most recent month in terms of
15 oil production and takeaway. It is not quite at a million
16 barrels a month yet coming out of the Williston Basin, but
17 it's almost there. They think they'll probably hit it next
18 month. It was almost a 3 percent increase March over
19 February, which when you think about just a one-month
20 increase, it's actually rather remarkable. But it continues
21 to happen.

22 Rails as of today is taking away almost 70
23 percent of that oil production, which--and thank goodness we
24 have rail lines to some of these shale plays, so that the
25 oil has an ability to get out. At the same time, I think

1 most of us acknowledge that the safest, most efficient way
2 to take oil, especially in bulk quantities like that, away
3 is through a pipeline system. So we will continue to
4 encourage the development of those pipelines.

5 Just one other issue that I would bring up. It's
6 not on the oil side, but since we're talking about oil and
7 gas production in that particular basin, the issue of
8 flaring has been talked about a lot. And the Commission of
9 course gets involved through its jurisdiction over
10 interstate natural gas pipelines.

11 At the end of the latest reporting month in
12 March, the Hess Processing Plant, which is a large expansion
13 of a plant, came on line. And we have begun seeing a
14 reduction of natural gas flaring in the Bakken, which is a
15 positive for the environment as well as those mineral
16 rights' owners and just responsible use of our natural
17 resources.

18 It dropped just slightly because the gas came on
19 at the end of the month. That gas is being delivered over
20 FERC jurisdictional facility that the Commission sited
21 through our Office of Energy Projects, and the expectation
22 is that that plant alone, when a full month is recorded,
23 will potentially drop the amount of flared gas to about 25
24 percent, which is down from 36 percent in previous months.
25 So that sort of progress is good progress, as well, on the

1 natural gas side.

2 Thank you.

3 ACTING CHAIRWOMAN LaFLEUR: Well thank you very
4 much, Commissioner Clark. Thank you for calling this item.
5 You know, we talk--it's almost axiomatic, like a cliché,
6 about the shale gas boom and how much work it's driving, but
7 the growth of domestic oil production is driving a lot of
8 work for this Commission also, and I am glad we are
9 highlighting it.

10 Colleagues?

11 COMMISSIONER MOELLER: I too thank Commissioner
12 Clark for calling it to bring attention to the item, because
13 over the last few years obviously we've been putting a lot
14 more staff resources into oil pipeline issues, reflecting
15 what's been happening in the marketplace. And I think that
16 trend is going to continue.

17 I read yesterday that some projections have the
18 United States as the world's largest oil producer by 2020,
19 and in doing so we are going to need the infrastructure to
20 move it safely, as Commissioner Clark noted. We have had
21 issues with--fortunately the railroads are there to take it
22 away, but it's also caused some congestion that's impacted
23 the agricultural community and the utility community in
24 terms of getting enough coal shipments to plants that need
25 it via rail.

1 So thank you for the attention to the subject.

2 An excellent presentation.

3 ACTING CHAIRWOMAN LaFLEUR: Commissioner Norris?

4 COMMISSIONER NORRIS: Yes, thanks, Commissioner
5 Clark, for bringing this to our attention. And I would just
6 draw maybe a larger point on this, that I think what we are
7 doing here is important for regulatory certainty.

8 Infrastructure is just harder and harder to build
9 in this country. I would like to draw an analogy to the
10 capacity markets, but I'll leave that for another day, as
11 well. But when we can increase regulatory certainty, we
12 will get more infrastructure built and we will lower costs
13 by providing that long-term financing ability that comes
14 with the certainty we provide in orders like we're doing
15 today. So thanks for your work on this, and thanks for
16 bringing it to our attention.

17 ACTING CHAIRWOMAN LaFLEUR: Thank you.

18 Madam Secretary?

19 SECRETARY BOSE: The vote begins with
20 Commissioner Clark.

21 COMMISSIONER CLARK: Aye.

22 SECRETARY BOSE: Commissioner Norris.

23 COMMISSIONER NORRIS: Aye.

24 SECRETARY BOSE: Commissioner Moeller.

25 COMMISSIONER MOELLER: Aye.

1 SECRETARY BOSE: And Chairman LaFleur.

2 ACTING CHAIRWOMAN LaFLEUR: Aye.

3 SECRETARY BOSE: The last item for discussion and
4 presentation this morning is A-3 concerning the Summer 2014
5 Energy Market and Reliability Assessment. There will be a
6 presentation by Devin Hartman and Eric Primosch from the
7 Office of Enforcement, and Louise Nutter from the Office of
8 Electric Reliability. They are accompanied by Deepak
9 Ramlatchan and Chris Ellsworth from the Office of
10 Enforcement, and Kent Davis from the Office of Electric
11 Reliability.

12 (A PowerPoint presentation follows:)

13 MR. HARTMAN: Good morning, Madam Chairman and
14 Commissioners:

15 We are pleased to present the Summer 2014 Energy
16 Market and Reliability Assessment, a joint effort of the
17 Office of Enforcement and the Office of Electric
18 Reliability.

19 The Summer Assessment is the staff's annual
20 opportunity to share our assessment of the electric, natural
21 gas, and other energy markets as we head into the summer
22 months. This presentation does not of course necessarily
23 reflect the views of the Commission or any Commissioner.

24 Electric and natural gas market conditions this
25 summer will reflect exceptional gas burn and storage

1 withdrawals this winter, and the anticipation of a warmer-
2 than-normal summer for much of the country. The possibility
3 of a summer El Nino may moderate temperatures and associated
4 market impacts. CAISO markets face a deep drought, while
5 market expansions in SPP and MISO enter their first summer
6 period of operation.

7 The key takeaways from today's presentation are
8 as follows:

9 Forecasted reserve margins are adequate across
10 the country. New resources in Texas are projected to put
11 the region slightly above the reserve margin target this
12 summer.

13 Drought could affect California's electric and
14 gas markets as gas-fired generation increases to offset
15 lower hydro generation.

16 The MISO South Region and SPP Integrated
17 Marketplace will operate under summer conditions for the
18 first time, which should lead to lower production costs to
19 serve system needs.

20 Higher electricity futures' prices reflect
21 increases in natural gas futures. While futures are not a
22 forecast of prices, this signals market expectations for
23 higher prices this summer.

24 MS. NUTTER: Preliminary data from NERC's Summer
25 Assessment indicates that reserve margins will exceed

1 planning targets for all assessment areas this summer. One
2 area we have focused on in recent years is Texas.

3 This year, ERCOT is forecasting a reserve margin
4 of 15 percent, just above its reserve margin target of 13.75
5 percent. MISO is also forecasting a reserve margin of 15
6 percent compared to its reserve margin target of 14.8
7 percent.

8 Overall, NERC's total U.S. load forecast, when
9 weather adjusted, is essentially unchanged over the past few
10 years.

11 There has been a net reduction in available
12 capacity of 10 Gigawatts NERC-wide since last summer. For
13 example, PJM had a net reduction of about 2.5 Gigawatts of
14 capacity. However, NERC is currently not projecting
15 problems in any region due to these retirements. Forecasts
16 for retirements in 2015 and forward to 2023 will be
17 available from the Long-Term Reliability Assessment this
18 fall.

19 The NERC Summer Assessment forecasts that the
20 summer installed nameplate wind capacity will increase by
21 about 4 gigawatts, or about 7 percent, from 2013. This will
22 bring the total nameplate capacity across the Nation to
23 approximately 61 gigawatts. The forecasted average on-peak
24 wind capacity for this summer is 17 percent of nameplate
25 capacity.

1 NERC also projects that approximately 6 gigawatts
2 of new utility-scale solar capacity will come online this
3 summer, most of which is located in Southern California and
4 Arizona.

5 This represents a substantial increase in solar
6 capacity in California over the past two years. Rapid
7 changes in wind and solar generation, particularly in the
8 morning and evening, are expected to increase the need for
9 flexible capacity for balancing and regulation.

10 As noted, ERCOT is projecting a reserve margin of
11 15 percent, assuming that normal weather conditions occur in
12 Texas this summer. This projection includes over 2
13 gigawatts of new gas-fired resources that are forecast to
14 enter commercial service by August 1st. Texas load
15 typically peaks in August; however, an early season heat
16 wave could stress the system before these new facilities are
17 available.

18 NERC reports that a number of coal-fired
19 generating stations experienced delayed coal deliveries last
20 winter. In some cases, these delays were because of ice on
21 barge and shipping routes, while in other cases the delays
22 were because of congestion and equipment problems on the
23 rail network.

24 Information from the Surface Transportation Board
25 indicates that rail network congestion in some areas will

1 continue into this summer because of the increased use of
2 rail transportation for petroleum products and other
3 commodities coming out of the Dakotas and the Upper Midwest,
4 as well as limitations on rail capacity and equipment in the
5 area.

6 However, projections by the EIA indicate that
7 reduced demand during the shoulder months could allow coal
8 stockpiles to be replenished before the summer peak.

9 After a particularly cold winter, natural gas
10 storage inventories are lower than normal. As a result, the
11 natural gas pipeline network will likely be called on to
12 both replenish storage inventories and to provide gas for
13 generators during the summer peak. At this time, NERC is
14 not projecting any fuel issues which would affect
15 reliability this summer, but it is an issue that we will
16 continue to monitor.

17 While the California assessment area in WECC
18 continues to experience a severe drought, water conditions
19 have improved since March and new gas and solar resources
20 should help to keep the anticipated reserve margin at
21 acceptable levels for this summer.

22 MR. HARTMAN: California's electric and natural
23 gas operations could experience elevated prices this summer
24 from challenges that include drought, hot weather, and fire
25 hazards.

1 NOAA forecasts warmer than normal temperatures
2 for much of California as a deep drought continues.
3 Statewide snowpack was only 33 percent of normal on April 1,
4 the traditional peak of the snow accumulation season.

5 As of May 11, reservoir water storage was 66
6 percent of the historical average, resulting in part from
7 low precipitation in previous years. The low snowpack and
8 reservoir levels will reduce hydroelectric generation,
9 possibly to half normal levels. These challenges may affect
10 the entire state. However, market impacts may be more
11 pronounced in the north and central areas, given low hydro
12 conditions.

13 The water conditions in the state may have
14 additional implications for summer power operations. Low
15 stream flows may restrict the availability and use of water
16 for natural gas-fired power plants. State officials are
17 assessing such restrictions.

18 CAISO has added over 3 gigawatts of generation
19 since last summer, which will help offset drought-related
20 supply limitations, and primarily consistent of natural gas
21 and solar. Further, Pacific Northwest snowpack is near or
22 above normal, which raises the potential for lower cost
23 imports for at least the early part of the summer.

24 Transmission limitations continue to restrict the
25 amount of power that can be imported into the southern part

1 of Orange County and San Diego, resulting in limited imports
2 and use of higher-cost local generation. Overall, supply
3 and demand conditions remain similar to last summer.

4 Turning to natural gas markets, low hydro
5 conditions, gas storage replenishment, new gas-fired
6 generation, and forecasted warm weather are likely to lead
7 to above normal summer gas demand. This could lead to
8 pipeline congestion and high natural gas prices. This is
9 already evident in summer futures prices. Increased solar
10 generation may moderate the increase in gas demand.

11 The new SPP Integrated Marketplace and MISO South
12 region will operate for the first time under summer
13 conditions. Both market expansions should improve unit
14 commitment and dispatch, especially in more congested areas
15 as units should be used more efficiently relative to their
16 value in alleviating congestion.

17 MISO may see prevailing flows from north to south
18 because of comparatively less expensive generation in the
19 northern region. However, flows could reverse under peak
20 conditions as MISO South has a greater capacity surplus.

21 Increased coal generation this winter reduced
22 coal stockpiles in parts of the Midwest and Plains. Some
23 generators have had difficulty replenishing their
24 inventories due to railroad congestion. If this persists
25 into the summer, the market could exhibit upward pressure on

1 electricity prices in some areas by reducing the
2 availability of some lower-cost generators operating on
3 Powder River Basin coal.

4 New transmission in SPP and MISO may improve
5 access to wind resources and provide congestion relief for
6 areas such as the Texas Panhandle and west Kansas in SPP.

7 Transmission improvements should also yield
8 market benefits in the East. Two 500 kV projects in eastern
9 and central PJM, the Mount Storm-Doubs rebuild and the
10 Hopatcong-Roseland segment of the Susquehanna-Roseland
11 project, are scheduled to enter service in June 2014 and
12 should help reduce congestion.

13 The Greater Springfield Reliability Project in
14 ISO-New England will provide incremental congestion benefit
15 to western Massachusetts and northern Connecticut. Full
16 service of the Neptune line in NYISO will increase import
17 capability and exert downward price pressure in Long Island,
18 a typically constrained zone. Changes in congestion
19 management on the Ramapo line will enable more market
20 interchange benefits between NYISO and PJM.

21 Demand response remains an important resource
22 under high load conditions in the eastern region. DR will
23 provide a larger proportion of reserves in PJM, which
24 presents a greater opportunity for evaluating the
25 performance of DR activations. Although the amount of

1 cleared DR capacity decreased in NYISO, recent measures to
2 improve performance may increase DR responsiveness.

3 MR. PRIMOSCH: This graph shows that average
4 natural gas futures prices for June, July, and August are
5 generally higher than last summer.

6 Henry Hub summer futures averaged \$5.81 per MMBtu
7 as of May 6th, 84 cents higher than last summer. The
8 largest increases are in the West, where Southern California
9 and Northern California are up 97 cents and \$1.23
10 respectively, making them two of the most expensive points
11 in the country.

12 The higher prices there reflect expectations for
13 higher summer natural gas demand in California. Futures
14 prices in New York City are about the same as last summer
15 but they remain 58 cents below the Henry Hub. The market
16 expects few constraints into New York City this summer
17 because of the New Jersey-New York Expansion Project put
18 into service November 2013 and because of greater access to
19 low-cost Marcellus shale gas.

20 This graph shows natural gas burned for
21 generation compared to historical and summer futures prices
22 for natural gas and coal. When natural gas prices remain
23 near or below coal prices for an extended period of time
24 during the summer, natural gas fired generation ramps up as
25 the market shifts away from coal.

1 Gas futures prices this summer are over \$1/MMBtu
2 higher than coal futures, compared to 41 cents higher last
3 summer. In 2012, natural gas was 57 cents cheaper than
4 coal, resulting in record natural gas-fired generation.

5 Higher natural gas prices this summer should make
6 natural gas-fired generation less competitive with coal,
7 with gas burn projected to be 2-1/2 percent lower than last
8 summer, and 17 percent below the summer of 2012.

9 Higher natural gas prices also create greater
10 incentives for increased production. Currently, natural gas
11 production is projected to grow 3 percent in 2014. Moderate
12 natural gas burn and higher production would help natural
13 gas storage recover from the current low levels.

14 However, summer natural gas-fired generation
15 increasingly competes with storage injections for supply,
16 and utilities may face some natural gas delivery constraints
17 as LDCs and pipelines begin to refill storage.

18 Average electric futures for June through August
19 increased markedly from November 2013 to May 2014. The
20 increases were between 19 and 30 percent for the Mid-C, PJM-
21 West, and New York-ISO Hudson Valley, and ISO-New England
22 Internal Hubs.

23 The series of extreme cold weather events in the
24 2013/2014 winter significantly increased electric futures
25 prices, which mirrored increases in gas futures.

1 Futures prices increased in the West, which also
2 reflects updated expectations for drought conditions.
3 Regional variances in futures prices result in part from
4 differing fuel mixes. For example, Mid-Columbia prices
5 reflect a strong contribution from low-cost hydro, and Mass
6 Hub prices reflect greater reliance on comparatively higher
7 cost gas generation.

8 Spot electricity prices are particularly
9 sensitive to weather conditions in the summer. Extreme heat
10 elevates electricity prices through load spikes. Extended
11 heat waves create additional price pressure by inducing
12 generation and transmission derates and outages.

13 The National Weather Service is forecasting
14 above-normal temperatures along the Pacific Coast, inland
15 through the Southwest, and spreading northward through the
16 Great Basin and Pacific Northwest.

17 NWS also projects above-normal temperatures from
18 central Texas through the entire Southeast, and along the
19 Eastern Seaboard as far north as Maine. These forecasts do
20 not project severe weather events, which commonly have major
21 impacts on market outcomes.

22 Offsetting this hot forecast, some forecasters
23 are calling for a weak to moderate El Nino to develop by the
24 summer. This tends to inhibit tropical storm development,
25 and generally results in wet and cool summers in the Central

1 and Eastern U.S. A strong El Nino may result in cooler and
2 wetter weather across the country.

3 Current hurricane forecasts call for 10 to 12
4 named storms, with 4 to 5 of those storms becoming
5 hurricanes. Forecasters expect only 2 of those hurricanes
6 to be Category 3 or greater. The 30-year average is 12
7 named storms, 6 hurricanes, and 3 intense hurricanes.
8 Hurricanes are much less important to the U.S. gas market
9 than just a few years ago, as offshore gas production has
10 declined from supplying more than 20 percent of the U.S. gas
11 market to around 5 percent currently.

12 This concludes our prepared remarks. We would be
13 happy to answer any questions you may have.

14 ACTING CHAIRWOMAN LaFLEUR: Well thank you very
15 much to all of you, and the team that worked on this, for
16 that very interesting presentation. I would also like to
17 thank NERC for the assessment that underlay the Electric
18 Reliability parts of the presentation.

19 I really enjoy this presentation because it
20 brings together so many of the different things we think
21 about: the operation of the markets, generation trends, and
22 the impact of infrastructure like transmission and
23 pipelines.

24 It also highlighted the impact this summer of
25 things that have been worked on for a long time, including

1 the transmission projects you mentioned. It's great to see
2 Susquehanna-Roseland start to come into service, and the
3 congestion management efforts along the seams between PJM
4 and NYISO.

5 I have two questions. Obviously we've been
6 talking a great deal about gas/electric coordination,
7 particularly during the winter peak. Obviously gas is used
8 less in the summer. You said gas prices were expected to be
9 higher, but--which would alleviate the pressure on gas a
10 little bit, but there are obviously constrained regions and
11 regions without a lot of other generation options.

12 So I wonder if you expect any gas shortages or
13 coordination issues in the summer peak?

14 MR. HARTMAN: Well I think you're characterizing
15 the issue correctly. It's typically viewed as a lot more of
16 a winter issue. However, one thing that's a little bit more
17 pronounced in the summer is it tends to be a pipeline outage
18 season when they're doing maintenance. And that is
19 something, going back over the last couple of summers, that
20 we have heard from various RTOs, is the importance of making
21 sure that they are aware and coordinating outages.

22 Of course on the communications and coordination
23 front between the industries, that has been a major focus of
24 the Commission. Out in CAISO they've had a robust
25 communication process in place for awhile now, and we're

1 seeing ISO New England, NYISO, PJM, and MISO all moving in
2 the direction of improved coordination with pipelines both
3 on outages as well as communicating when there are pipeline
4 events so they can better respond to contingencies.

5 So I think from a planned perspective, things are
6 in a much better position than they were even a year ago.

7 ACTING CHAIRWOMAN LaFLEUR: Well thank you, very
8 much. My second question is about the West, about
9 California. We have already seen the wildfires starting
10 really very, very early. Can you explain a little bit more
11 about the wildfire-related risks, particularly in Southern
12 California, which I know has issues with the loss of San
13 Onofre anyway and kind of keeping everything together?

14 MS. NUTTER: The usually dry conditions in
15 California have created heightened risk, particularly for
16 July and August.

17 In Southern California, the fires currently have
18 caused the outage of two 230kV lines. They are planning to
19 posture defensively when fires become imminent. They are
20 going to use things such as Demand Response and public
21 appeals, if it's affecting the Southern California area.

22 ACTING CHAIRWOMAN LaFLEUR: Thank you, very much.
23 Colleagues?

24 COMMISSIONER MOELLER: Thank you, Acting Chair
25 LaFleur. I'm not sure who this question is for, perhaps for

1 Mr. Davis because we've talked a little bit about it before,
2 but the concern I have is when reserve margin calculations
3 are made. Has the analysis really dug down to the level of
4 whether there's gas available on peak days, when there's
5 obviously a system that's being stressed for a variety of
6 reasons not just demand, but perhaps planned outages?

7 MR. DAVIS: Well when we, Commissioner Moeller,
8 when we evaluate the results of resource adequacy, we see
9 that most of the focus is making sure there's enough
10 generation by nameplate available to serve the peak load.

11 When we look at this in more depth and look at
12 the E-4D rating that's used to sort of, as a proxy for the
13 availability of the unit, and in some cases the availability
14 of the fuel, that is an annualized number that derates the
15 unit and it's calculated on a five-year basis and may not
16 reflect the availability of the fuel necessary to maintain
17 the system.

18 So we are concerned that an emerging issue may be
19 that the marketplace and the reliability does not reflect
20 the infrastructure that's necessary in the fuel delivery
21 system.

22 COMMISSIONER MOELLER: Thank you. So that is an
23 ongoing concern that we and those in the industry who
24 conduct reliability assessments, reserve margin assessments,
25 need to dig down into deeper because a five-year annualized

1 assumption is not what happens during a severe weather
2 event.

3 MR. DAVIS: That's correct.

4 COMMISSIONER MOELLER: All right.

5 A couple of questions on Texas. I don't know the
6 best person to ask on this, but you noted the new plants
7 coming on, that come on roughly around August 1st I think.
8 The assumptions going forward, did ERCOT assume that there
9 would be greater capacity from the wind resources?

10 Is it a decrease, or a projected level demand?
11 I'm slightly concerned when the weather forecast is showing
12 a warmer than normal summer in Texas, and the reserve
13 margins have been such a subject of debate down there.
14 What's your perspective on that?

15 MS. NUTTER: The methodology in ERCOT has
16 changed. They have changed their load forecasts. Their
17 load is now price sensitive, so the peaks are as high as
18 they have been in the past relative to normal conditions.
19 They have not changed the way wind is calculated. They are
20 discussing the issue, but they haven't made any changes at
21 this time.

22 COMMISSIONER MOELLER: Are they projecting flat
23 demand? Or higher demand for the summer?

24 MS. NUTTER: The load forecasts are lower than
25 previously.

1 MR. RAMLATCHAN: I was just going to add that the
2 forecast for this year, for this summer, is slightly higher
3 than last summer. What's decreasing is the rate of the
4 increase, and that's what their new forecasting methodology
5 that takes into account energy efficiency and demand side
6 price responsiveness into their forecast is yielding at this
7 point.

8 COMMISSIONER MOELLER: Do you think the forecasts
9 sufficiently incorporated the latest weather projections?

10 MR. RAMLATCHAN: I believe, just based on the
11 NERC report, I believe that it does, that it does take into
12 account the upcoming weather, or anticipated weather.

13 I believe they're using some different inputs
14 into their forecasting methodology. They used to use an
15 employment figure as the economic input as to what could be
16 expected. Now they're really breaking it down by region and
17 consumer class, and I would estimate a slightly more
18 sophisticated way of doing the forecast.

19 COMMISSIONER MOELLER: Well that's good news.
20 I'm glad you highlighted the situation in California. I
21 think it is often overlooked how much--the significance of
22 hydro generation in California is. It's automatic when you
23 think of the Northwest, but in California it is still a very
24 significant part. With the drought conditions, it will be
25 extremely challenging; and it highlights the fact that we

1 are dependent on the weather. And if we have mild weather,
2 we can probably get through a lot of these next few seasons,
3 but if we have extreme weather events it is going to be very
4 challenging.

5 Thank you very the presentation.

6 ACTING CHAIRWOMAN LaFLEUR: Thank you.

7 Commissioner Norris?

8 COMMISSIONER NORRIS: Thank you, as well.

9 I just have one question. During the
10 presentation you noted the problems with respect to coal
11 deliveries because of the limitations on rail capacity and
12 congestion. You then note that EIA indicates that reduced
13 demand during the shoulder months could allow coal
14 stockpiles to be replenished before the summer peak.

15 You used the term "could." Can you tell me what
16 is your degree of confidence with respect to the EIA
17 statement?

18 MS. NUTTER: As long as weather conditions remain
19 as expected, as long as there's not--as long as the rail
20 conditions continue to improve as it currently is, then it
21 should allow for coal stockpiles to be replenished. If
22 there are major changes, a major heatwave, something
23 unexpected, then that could change.

24 COMMISSIONER NORRIS: Okay. So current capacity,
25 barring any unforeseen weather events?

1 MS. NUTTER: Yes.

2 COMMISSIONER NORRIS: Okay. Deepak?

3 MR. RAMLATCHAN: Thanks, Commissioner. I was
4 just going to add, as Louise mentioned, the rail situation
5 is improving and lots of the major railroads have already
6 reported over the last several weeks an uptick in the coal
7 cargo that they're carrying year-to-date. So we are already
8 seeing improvement on the railways.

9 COMMISSIONER NORRIS: I had a chance last week to
10 meet with BSNF and they were encouraging, as well. The
11 "could" just worried me a little bit, but that makes sense
12 if there's some unforeseen circumstance. So thanks for your
13 work.

14 ACTING CHAIRWOMAN LaFLEUR: Thank you.

15 Commissioner Clark?

16 COMMISSIONER CLARK: No questions, but thanks for
17 some excellent work, and thanks for the other questions.

18 ACTING CHAIRWOMAN LaFLEUR: Well thank you all
19 very much. And with that, this meeting is adjourned.

20 (Whereupon, at 11:09 a.m., Thursday, May 15,
21 2014, the 1005th meeting of the Federal Energy Regulatory
22 Commissioners was adjourned.)

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