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Before the  
FEDERAL ENERGY REGULATORY COMMISSION  
994th Commission Meeting

Thursday, May 16, 2013  
Hearing room 2C  
888 First Street, N.E.  
Washington, D.C.20426

The Commission met in open session, pursuant to  
notice, at 10:03 a.m., when were present:

COMMISSIONERS:

JON WELLINGHOFF, Chairman  
PHILIP MOELLER, Commissioner  
JOHN NORRIS, Commissioner  
CHERYL A. LaFLEUR, Commissioner  
TONY CLARK, Commissioner

FERC STAFF:

KIMBERLY D. BOSE, Secretary  
JIM PEDERSON, Chief of Staff  
JOSEPH McCLELLAND, Director, OEIS  
MICHAEL BARDEE, Director, OER  
DAVID MORENOFF, Acting General Counsel  
JEFF WRIGHT, Director, OEP  
ANNA COCHRANE, OEMR  
JAMIE SIMLER, Director, OEPI  
NORMAN BAY, Director, OE

1 PRESENTERS:

2 A-3: STATE OF THE MARKETS

3 OMAR CABRALES, OE ALAN HAYMES, OE

4 CHRIS ELLSWORTH, OE ROXANA ROYSTER, OE

5 JANEL BURDICK, OE

6

7 A-4 SUMMER MARKET AND RELIABILITY ASSESSMENT

8 DAVE BURNHAM, OER DEVIN HARTMAN, OE

9 ERIC PRIMOSCH, OE EDDY LIM, OER

10 HENRY ASZKLAR, OE CHRIS ELLSWORTH, OE

11

12 E-5 RELIABILITY STANDARDS FOR

13 GEOMAGNETIC DISTURBANCES (RM12-22-000)

14 MATTHEW VLISSIDES, OGC REGIS BINDER, OER

15 DAVID HUFF, OER

16

17 E-7 MIDWEST INDEPENDENT TRANSMISSION

18 SYSTEM OPERATOR, INC., (EL12-35-000)

19 CONOR WARD, OGC ANDRE GOODSON, OGC

20 NATALIE TINGLE-STEWART, OEMR

21 STEVEN HUNT, OE

22

23

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

25

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

2 (10:03 a.m.)

3 CHAIRMAN WELLINGHOFF: Let's come to order,  
4 please. Good morning. This is the place and place that has  
5 been noticed for the open meeting of the Federal Energy  
6 Regulatory Commission to consider matters that have been  
7 duly posted in accordance with the Government in the  
8 Sunshine Act. Could you please join me for the Pledge of  
9 Allegiance.

10 (Pledge of Allegiance recited.)

11 CHAIRMAN WELLINGHOFF: Well since our last open  
12 meeting we have actually issued 57 Notational Orders. We  
13 are a little bit down from our previous month of 70, but we  
14 are still moving along with the work of the Commission.

15 I have got a couple of administrative matters  
16 before we get started, and then I know that there are also  
17 one or two others that some of the Commissioners have.

18 The first one I have is: Norman, you missed the  
19 memo last agenda. I was actually issuing a few awards, and  
20 Norman Bay is due for one today, as well. I would like to  
21 give Norman Bay the Chairman's Medal--and I don't mean Jamie  
22 Diamond, I mean from me.

23 (Laughter.)

24 CHAIRMAN WELLINGHOFF: Norman has led up the  
25 Office of Enforcement and put together I would say probably

26

1 the top team in the Federal Government with respect to  
2 regulatory enforcement. I know of no other, no peer that  
3 matches the team that Norman has put together for this  
4 Agency to keep the markets fair and open and free of market  
5 abuse and manipulation.

6 So with that, Norman, I would like to give you  
7 the Chairman's Award.

8 (Applause and presentation.)

9 CHAIRMAN WELLINGHOFF: Congratulations, Norman.  
10 Congratulations. You really deserve this, Norman. Thank  
11 you.

12 (Applause.)

13 CHAIRMAN WELLINGHOFF: Thank you, Norman.

14 So I have been told there are only so many  
15 Chairman's Awards that you can give out--

16 (Laughter.)

17 CHAIRMAN WELLINGHOFF: --but there are others  
18 here who are deserving--in fact, others who have actually  
19 gotten Chairman's Awards before. So, as such we do have  
20 another award category: The Chairman's Executive Leadership  
21 Award.

22 The first individual I would like to give that  
23 award to is someone who came onboard and took the Policy  
24 Office horns by the head, and rode that office to a point of  
25 creating what I believe to be the best policy shop in the  
26

1 Federal Government. Jamie Simler.

2 (Applause and presentation.)

3 CHAIRMAN WELLINGHOFF: Congratulations, Jamie.  
4 Thank you, very much.

5 So I have had the opportunity then to, in  
6 addition to creating the Policy Office, create another new  
7 office that I thought was extremely necessary and important,  
8 one that is becoming increasingly important in our days of  
9 uncertainty in this country, and that is the Office of  
10 Energy Infrastructure Security. I had to look to find  
11 somebody who I thought could do a job to stand that office  
12 up and move it into an area and an arena that was quite  
13 different from what the Commission did, not so much  
14 regulatory but more cooperative and collaborative with not  
15 only our jurisdictional utilities but also with states, and  
16 with other federal offices. And Joe McClelland has stepped  
17 up to that and exceeded my expectation beyond my wildest  
18 dreams, I have to say.

19 Joe, please come up.

20 (Applause and presentation.)

21 CHAIRMAN WELLINGHOFF: Thank you, Joe.

22 Of course when I created the Office of Energy  
23 Infrastructure Security and brought Joe in, I had a little  
24 problem. The problem was, I brought Joe in heading up the  
25 Reliability shop, which is an essential part of this Agency,  
26

1 as well, working with NERC, the North American Electric  
2 Reliability Council, that develops these standards for us  
3 and then submits them to us to look at and consider  
4 promulgating the rules. And I had to have somebody who not  
5 only knew the energy side of things, the engineering side of  
6 things, but of equal importance the law.

7 And much to my surprise, but much to my great  
8 pleasure, Mike Bardee stepped up to do that. So, Mike, I  
9 would like to also give you the Chairman's Executive  
10 Leadership Award.

11 (Applause and presentation.)

12 CHAIRMAN WELLINGHOFF: Congratulations, Mike.  
13 Thank you.

14 So with that, John, Commissioner Norris, I think  
15 you've got a staff change or some other administrative  
16 issues you want to discuss?

17 COMMISSIONER NORRIS: I do. Thank you.

18 One of my original advisors who started with me,  
19 and I have felt fortunate since day one that Jeff Dennis has  
20 been a part of my team, as I have felt fortunate with all my  
21 team. In fact, I think those early staffing decisions still  
22 remain the most important and best decisions I have made  
23 since I have been at the FERC.

24 But now, as often happens when you have great  
25 people, they move on to bigger and better things, which I  
26

1 think is fabulous. And Jeff Dennis next week will move over  
2 to the Office of Energy Policy and Innovation to be the  
3 Director of the Division of Policy Development. And so he  
4 will have responsibilities with--well, the group has in the  
5 past, to give you some sense, has worked on Order 1000, the  
6 Transmission policy, Gas-Electric Coordination Conferences,  
7 annual reports and surveys on Demand Response and AMI  
8 Penetration. This is the position that Kevin Kelly has, and  
9 Kevin left big shoes to fill and I want to commend Jamie for  
10 great judgment on finding someone who could fill those shoes  
11 and I think will bring great leadership, innovation, and  
12 critical thought that benefits both the division and also  
13 all of FERC in his new position as the Director of the  
14 Division of Policy Development in the Office of Energy  
15 Policy and Innovation.

16 So, congratulations, Jeff, and thank you.

17 (Applause.)

18 COMMISSIONER NORRIS: If I ever wonder if I'm  
19 really adding value, I always just think of my brilliant  
20 staffing decisions and realizing I am adding value.

21 (Laughter.)

22 COMMISSIONER NORRIS: Temporarily replacing Jeff  
23 while we figure out what we are doing long term, I am very  
24 pleased and fortunate to have Andy Weinstein, who will be  
25 joining my staff for the next several months. Andy has been  
26

1 an attorney advisor here at FERC for the last two-and-a-half  
2 years and brings a great deal of energy and expertise in a  
3 number of areas that Jeff is taking out the door with him.

4 So even though Jeff is only a few floors away, I  
5 take some solace in that, I am very fortunate to have Andy's  
6 help for the next several months.

7 Thank you, Andy.

8 (Applause.)

9 COMMISSIONER NORRIS: And one final item, in  
10 honor of just the most recent Mother's Day, I have my Mother  
11 visiting today from Iowa sitting in the back of the room  
12 here.

13 (Commissioner Norris's Mother stands.)

14 (Applause.)

15 COMMISSIONER NORRIS: My Mom is Patsy Norris, and  
16 I told her this will be a longer than usual meeting so some  
17 of you guys back there are responsible for keeping her awake  
18 about halfway through.

19 (Laughter.)

20 COMMISSIONER NORRIS: Thanks, Mr. Chairman.

21 CHAIRMAN WELLINGHOFF: Thank you, John. And,  
22 John, we appreciate very much you sharing Jeff with the rest  
23 of us, with the staff, because Jeff is going to be a great  
24 addition to the Policy staff. So that's great. Thank you,  
25 very much.

26

1                   Well, Madam Secretary, if we could move on to the  
2 Consent Agenda, please.

3                   SECRETARY BOSE: Good morning, Mr. Chairman, good  
4 morning, Commissioners:

5                   Since the issuance of the Sunshine Act Notice on  
6 May 9th, 2013, Items E-19, E-20, E-25, and E-26 have been  
7 struck from this morning's Agenda.

8                   Your Consent Agenda for this morning is as  
9 follows:

10                   Electric Items: E-1, E-2, E-4, E-6, E-8, E-9,  
11 E-10, E-11, E-12, E-14, E-15, E-16, E-18, E-21, E-22, E-23,  
12 and E-24.

13                   Gas Items: G-1, G-2, G-3, G-4, G-5, and G-6.

14                   Hydro Items: H-1 and H-2.

15                   Certificate Items: C-1 and C-2.

16                   As to E-1, Commissioner Moeller is dissenting  
17 with a separate statement. And Commissioner Clark is  
18 dissenting with a separate statement.

19                   As to E-6, Commissioner Moeller is dissenting in  
20 part with a separate statement. And Commissioner Clark is  
21 dissenting in part with a separate statement.

22                   As to E-8, Commissioner Norris is concurring with  
23 a separate statement.

24                   As to E-23, Commissioner Moeller is dissenting in  
25 part. And Commissioner Clark is dissenting in part with a  
26

1 separate statement.

2 As to E-24, Commissioner Moeller is dissenting in  
3 part. And Commissioner Clark is dissenting in part with a  
4 separate statement.

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

7 COMMISSIONER CLARK: Madam Secretary, noting my  
8 dissent in E-1, my dissent in part in E-6, my dissent in  
9 part in E-23, and my dissent in part in E-24, I vote yes.

10 SECRETARY BOSE: Commissioner LaFleur.

11 COMMISSIONER LaFLEUR: I vote aye.

12 SECRETARY BOSE: Commissioner Norris.

13 COMMISSIONER NORRIS: Noting my concurrence in  
14 E-8, I vote aye.

15 SECRETARY BOSE: Commissioner Moeller.

16 COMMISSIONER MOELLER: Noting my dissent in E-1,  
17 my dissent in E-6, my dissent in part in E-23 and E-24,  
18 which will be without statements, I vote aye.

19 SECRETARY BOSE: And Chairman Wellinghoff.

20 CHAIRMAN WELLINGHOFF: I vote aye.

21 Madam Secretary, if we could then move on to the  
22 Discussion Agenda.

23 SECRETARY BOSE: The first item for discussion  
24 and presentation is Item A-3 concerning the 2012 State of  
25 the Markets Report. The presentation will be by Alan  
26

1 Haymes, and Omar Cabrales from the Office of Enforcement.  
2 They are accompanied by Chris Ellsworth, Roxana Royster, and  
3 Janel Burdick also from the Office of Enforcement. There  
4 will be a PowerPoint presentation on this item.

5 (A PowerPoint presentation follows:)

6 MR. CABRALES: Good morning, Mr. Chairman and  
7 Commissioners.

8 CHAIRMAN WELLINGHOFF: Good morning.

9 MR. CABRALES: We are pleased to present the  
10 Office of Enforcement's 2012 State of the Markets Report.  
11 The State of the Markets Report is staff's annual  
12 opportunity to share our assessments on natural gas,  
13 electric, and other energy markets.

14 This report does not necessarily reflect the view  
15 of the Commission or any Commissioners.

16 Major themes in natural gas and electric markets  
17 in 2012 were:

18 Natural gas production grew to a new all-time  
19 record in 2012 which contributed to the lowest nominal  
20 natural gas prices since 2002. Low natural gas prices  
21 resulted in much greater reliance on natural gas as the fuel  
22 of choice for power generation, while coal-fired power  
23 generation fell to the lowest level in 30 years.

24 Growing use of natural gas to produce  
25 electricity--known as "power burn"--and the demands that  
26

1 natural gas-fired generators place on pipelines such as  
2 large variability in consumption rates throughout the day,  
3 increased awareness about the importance of greater  
4 coordination between the natural gas and electric  
5 industries.

6 Although generally good for the energy industry  
7 and the economy, regional changes in natural gas production  
8 resulted in falling utilization of some pipelines which  
9 increased their financial risks.

10 Since natural gas is often the marginal fuel in  
11 electric generation, lower natural gas prices generally  
12 resulted in lower electric prices across the country.

13 Warm winter weather in 2012, a slowly recovering  
14 economy, and increasing energy efficiency contributed to a  
15 second year of declining electricity demand.

16 As indicated on the graph, U.S. natural gas  
17 prices fell to a 10-year low in 2012 with the Spot Price at  
18 Henry Hub averaging \$2.74 per million Btu for the year, down  
19 31 percent from 2011.

20 Contributing to the price decrease was a 5  
21 percent growth in U.S. natural gas production, a 10 percent  
22 drop in residential and commercial natural gas demand due to  
23 one of the warmest winters on record in the first quarter of  
24 2012, and high storage levels.

25 By the spring of 2012, working gas in storage  
26

1 stood at a record 934 Bcf surplus to the five-year average  
2 and robust injections in the spring and fall brought storage  
3 to near-record levels by November 2012.

4 The growth in production was driven by gains in  
5 drilling rig efficiency and was centered mostly in the  
6 Marcellus Shale in Pennsylvania, the Eagle Ford Shale in  
7 Texas, and the Fayetteville Shale in Arkansas.

8 In other major shale plays, production stalled or  
9 declined as producers concentrated on liquids rich natural  
10 gas fields. By the end of 2012, production from the 6 major  
11 U.S. shale formations accounted for 38 percent of total U.S.  
12 natural gas production, up from 22 percent at the beginning  
13 of 2011.

14 During the course of the year, the Spot natural  
15 gas prices at Henry Hub fell to a low of \$1.82 per million  
16 Btu before gradually rising to a higher of \$3.77 per million  
17 Btu in late November. The rise was largely a result of high  
18 natural gas demand from power burn and, in the fourth  
19 quarter, the onset of the 2012/2013 winter heating season.

20 Natural gas prices fell 25 to 40 percent across  
21 the country in 2012. The price difference between major  
22 trading hubs and the Henry Hub--also known as "basis"--in  
23 many cases was only pennies. In 2011, capacity expansions  
24 on Florida Gas Transmission Pipeline eliminated price spikes  
25 at the Florida Gas Transmission Zone 3 Hub, and natural gas  
26

1 prices there averaged \$2.92 per million Btu.

2 In New England, the Algonquin Citygate Hub near  
3 Boston experienced the highest spot prices in the country,  
4 averaging \$3.91 per million Btu due to pipeline constraints  
5 and a drop in LNG imports. With the exception of very cold  
6 days, there were few natural gas transportation constraints  
7 into New York City and spot prices at Transco Zone 6 New  
8 York averaged \$3.19 per million Btu.

9 In California, increased demand for gas-fired  
10 power generation due to the outage of the San Onofre Nuclear  
11 Generating Unit put upward pressure on natural gas prices  
12 through the spring and summer.

13 Natural gas prices in the Rockies were among the  
14 lowest in the country. They averaged \$2.59 per MMBtu at the  
15 Colorado Interstate Gas Hub. Rockies natural gas producers  
16 lost market share to growing production closer to the  
17 markets in the Northeast and Midcontinent.

18 Total average daily U.S. natural gas demand grew  
19 4 percent to 70 billion cubic feet a day in 2012, the  
20 highest level on record. This occurred despite a 10 percent  
21 decline in residential and commercial natural gas demand.

22 Natural gas demand for gas-fired generation grew  
23 to a record 25 billion cubic feet a day in 2012, a 21  
24 percent increase over 2011. Power burn growth was centered  
25 primarily in PJM and in the Southeast states. For the first  
26

1 time ever, natural gas used for power generation was greater  
2 than the combined residential and commercial gas demand.

3 Greater reliance on natural gas as fuel for power  
4 generation led to increased awareness about the importance  
5 of greater coordination between the natural gas and electric  
6 industries.

7 New England was identified as a market  
8 particularly at risk for service disruption due to limited  
9 pipeline capacity into the region. Most natural gas-fired  
10 generators in New England have little or no firm  
11 transportation capacity in their natural gas supply  
12 portfolios and depend on interruptible capacity on pipelines  
13 for their supplies.

14 However, availability of interruptible capacity  
15 in the region is decreasing. Natural gas-fired generators  
16 also rely on the capacity release market, but this option  
17 may not be available on high demand days such as during a  
18 cold snap when local distribution companies need pipeline  
19 capacity to meet increased customer demand.

20 Natural gas-fired generation displaced  
21 substantial amounts of electricity output from coal-fired  
22 generation in 2012, particularly from generators in the  
23 East. The chart shows this displacement.

24 Due to low natural gas prices, the U.S. natural  
25 gas-fired combined cycle plant fleet was more heavily used  
26

1 than at any time in the past 10 years. Natural gas-fired  
2 generation reached 1,231 terawatt hours, 30 percent of total  
3 net generation in 2012, up from 25 percent in 2011. Coal-  
4 fired generation fell to 1,517 terawatt hours, 37 percent of  
5 total net generation, down from 42 percent in 2011.

6 Over 10 billion cubic feet a day of long-term  
7 transportation capacity contracts on 9 major U.S. natural  
8 gas pipelines expired during 2012. In cases where customers  
9 re-contracted it was generally for shorter durations and  
10 smaller volumes. Cumulatively, almost 26 billion cubic feet  
11 a day of capacity is due to expire by 2015, and 37 billion  
12 cubic feet a day by 2020.

13 Declines in pipeline utilization and changing  
14 customer needs pose financial risks to long-haul pipelines.  
15 The erosion of regional price differences over the past few  
16 years has reduced the value of many long-haul pipeline  
17 routes.

18 Pipelines which move natural gas into the  
19 Northeast from the Gulf Coast and from the Rockies  
20 experienced the greatest declines in utilization in 2012.  
21 The new natural gas flow patterns raised the possibility  
22 that some pipelines may not be able to find buyers for long-  
23 term capacity once their current contracts expire.

24 As a result of declining utilization, some  
25 pipeline companies are converting or considering converting  
26

1 natural gas pipelines to transport crude oil or natural gas  
2 liquids.

3 U.S. LNG imports continued to decline in 2012.  
4 Low domestic natural gas prices made it difficult to attract  
5 LNG cargoes to the U.S., and imports fell 50 percent. Of  
6 the 12 active U.S. terminals, only Everett LNG in  
7 Massachusetts and Elba Island in Georgia received regular  
8 LNG cargoes throughout the year--although with lower  
9 frequency than in past years. Both have long-term contracts  
10 in place.

11 In 2012, LNG sold in Asia for approximately \$15  
12 per Million Btu, 4 to 5 times higher than in the U.S., \$10  
13 to \$11 per million Btu in Europe, and around \$12 to \$13 per  
14 million Btu in South America. The price spread between the  
15 U.S. and world natural gas prices created interest in  
16 liquefying and exporting U.S. natural gas.

17 However, U.S. LNG exports are at least two to  
18 three years away due to the long time horizon for permitting  
19 and building export facilities.

20 Even as companies contemplated LNG exports, U.S.  
21 natural gas pipeline exports to Mexico increased 24 percent  
22 in 2012. Exports of Marcellus Shale gas to Canada also  
23 commenced in the latter half of 2012.

24 U.S. imports of natural gas from Canada fell  
25 9 percent in 2012. This is because U.S. produced natural  
26

1 gas generally had a transportation advantage over natural  
2 gas from Canada, particularly in the Northeast and upper  
3 Midwest.

4 MR. HAYMES: The electricity prices nationwide  
5 were lower in 2012 than in 2011. The lower prices followed  
6 natural gas prices, a major determinant of electricity  
7 prices. Low natural gas prices have been largely  
8 responsible for relatively low electricity prices since the  
9 beginning of 2009, but lower electric demand as a result of  
10 continued weak economic activity and energy efficiency were  
11 also contributors.

12 The low prices in 2012 were seen in all regions  
13 of the country, but there was variation because of more  
14 region-specific conditions. Prices in the East were from 10  
15 to 31 percent lower than in 2011. Western prices fell  
16 between 6 and 23 percent.

17 Sales of electricity dropped by 1.7 percent or 63  
18 terawatt hours in 2012 compared to 2011. Annual consumption  
19 of electricity across the three principal sectors--  
20 residential, commercial, and industrial--is shown in the  
21 chart. From 2011 to 2012, industrial and commercial demand  
22 stayed flat but residential demand showed a sharp decline.

23 As we will discuss in the next slide, demand was  
24 down across the Nation due to three primary factors: a  
25 decrease in residential demand; lack of demand growth in the  
26

1 commercial and industrial sectors; and increased energy  
2 efficiency.

3 Residential demand decreased because of a drop in  
4 heating load due to a warm winter. The first quarter of  
5 2012 broke the January to March average temperature record  
6 for the Continental U.S. by a significant 1.4 degrees  
7 Fahrenheit.

8 Industrial sales fell by 0.8 percent, and  
9 commercial sales fell by 0.2 percent in 2012. Reduction in  
10 industrial demand generally reflects a slowly recovering  
11 economy with commercial consumption staying flat as a result  
12 of the economy and weather.

13 Energy efficiency is responsible for a portion of  
14 the reduction in load. Several states with active energy  
15 efficiency programs were able to achieve savings that amount  
16 to about 1 percent of total sales. Even with only part of  
17 the country represented by active state programs, the  
18 results that have been documented are sufficient to  
19 influence the overall trend in consumption.

20 ITC, the transmission owner in Michigan at the  
21 border with Ontario, Canada, installed new Phase Angle  
22 Regulators, or PARs, that put the interface between Michigan  
23 and Ontario under PAR control starting in late June 2012.

24 PARs are physical devices that help to better  
25 align actual power flows with scheduled power flows across  
26

1 transmission paths, and can be used to control loop flows on  
2 parallel transmission paths.

3 For years, loop flow around Lake Erie has caused  
4 difficult-to-manage congestion and reliability costs in the  
5 four surrounding regions: New York ISO, Ontario's  
6 Independent Electricity System Operator, MISO, and PJM.  
7 Full PAR control on the interface was the culmination of  
8 more than 20 years of various projects.

9 Since the complete system of PARs on the  
10 michigan-Ontario interface has gone into service, loop flows  
11 have decreased compared to earlier periods. Early reports  
12 indicate that congestion costs in Michigan are lower with  
13 fewer binding constraints and the interchange capacity  
14 across the Michigan-Ontario interface has been boosted.

15 Financial products continue to play an important  
16 role in energy markets. Financial trading of natural gas in  
17 2012 exceeded physical trading by an order of magnitude.

18 Financial trading allows participants to hedge  
19 and arbitrage prices without the risk of physical delivery  
20 requirements or related costs.

21 Also, in electricity markets financial trading  
22 plays a prominent role with approximately 90 percent of  
23 financial trading taking place at RTO and ISO trading hubs.

24 In 2012, traders evaluated trading opportunities  
25 in a market environment of declining prices and lower profit  
26

1 margins.

2 In 2012, financial trading volumes for both  
3 natural gas and electricity remained substantial overall.  
4 However, trading for electricity continued to decline in  
5 2012 even as end-use consumption remained relatively flat.

6 The volume of electricity trading on the  
7 IntercontinentalExchange in 2012 decreased 19 percent  
8 compared to 2011 as part of a longer term trend. Physical  
9 transactions reported in EQR have also been in decline since  
10 2008.

11 However, open interest in the markets remained  
12 high particularly in the Nymex Futures and Swaps markets as  
13 producer and merchant participation held steady and managed  
14 money trading increased to replace declines by banking  
15 institutions.

16 Toward the end of 2012, financial trading of both  
17 natural gas and electricity shifted as trading platforms  
18 offered revised products in response to regulatory changes  
19 required under the Dodd-Frank Act.

20 In particular, the markets transitioned by  
21 converting certain traditional swaps products into futures  
22 to facilitate increased transparency in the markets.

23 With regard to credit, public utilities  
24 maintained access to investment capital through stable  
25 credit ratings. A relatively favorable credit environment  
26

1       existed for utilities that maintained higher credit ratings.

2

3               With low interest rates available for  
4       investment grade utilities, debt issuance by the lowest  
5       investment grade, BBB rated utilities, stayed flat while A-  
6       rated utilities increased their issuance by 25 percent in  
7       2012.

8               That completes the prepared portion of our  
9       comments. A copy of this presentation will be posted on the  
10       Commission's website. We are available to answer any  
11       questions you may have.

12              CHAIRMAN WELLINGHOFF: Thank you, Alan and Omar  
13       for those excellent presentations, and I want to thank all  
14       the members of the team for what is always a very  
15       informative presentation to this Commission.

16              I just had two comments. I was glad to see about  
17       the Phase Angle Regulators in the Lake Erie Loop Flow. That  
18       has been a long-standing problem, and I think it really  
19       demonstrates the ability to take technology and improve  
20       efficiency and drive down costs on a macro level.

21              And then comments on energy efficiency at the  
22       residential level, that states are actually achieving  
23       residential energy efficiency reductions of one percent,  
24       which is comparable to the EIA level, the Energy Information  
25       Administration's level of projected growth rates of one

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1       percent, looking at the potential there to get to net zero  
2       growth, potentially, if we can balance our efficiency with  
3       our needs to continue to be productive in this country.

4               So we can be productive at the same time we can  
5       energy efficiency and save costs. So I think these are all  
6       very positive and encouraging things. And again I want to  
7       thank you.

8               Colleagues, comments, questions? Commissioner  
9       Moeller.

10              COMMISSIONER MOELLER: Thank you, Mr. Chairman,  
11       I'll support your comments regarding the Phase Angle  
12       Regulators and that transmission investment that actually  
13       ended up saving consumers money and advancing the  
14       reliability of the Lake Erie area, which of course we're  
15       connected with Canada as part of an integrated system.

16              A couple of questions. Alan, you mentioned in  
17       the slide the amount of lower electricity costs throughout  
18       the Nation: in every market, lower costs in 2012. And this  
19       could catch you a little offguard, but is there a cumulative  
20       dollar impact that those lower costs result in for  
21       consumers?

22              I have heard it in New England that it's  
23       somewhere around \$4 billion less for consumers thanks to  
24       prices going down. But nationwide, do you have any feel for  
25       that number?

26

1                   MR. HAYMES: I do not have that number before me.  
2 We can put that together and provide it to you.

3                   COMMISSIONER MOELLER: Yes. I think it would be  
4 helpful.

5                   Finally, in your last slide you mentioned the  
6 fact that late in 2012 a lot of the financial trading  
7 platforms shifted to futures, getting rid of the swaps, but  
8 that happened very late in the year.

9                   Have you noticed any changes in terms of trading  
10 volume since--in the last six months, since those Dodd-Frank  
11 regulations essentially kicked in?

12                   MR. HAYMES: I think my colleagues may be able to  
13 give you some information on that.

14                   MS. ROYSTER: Staff continues to monitor the  
15 volumes, and also the open interest that the markets display  
16 after the introduction of Dodd-Frank. And you are correct,  
17 Commissioner, it happened on October 15, 2012. So far,  
18 we've been observing increased open interest in Q-1 of 2013  
19 versus Q-4 of 2012, and also volumes stay strong following  
20 the pattern that happened from 2011 to 2012. And we can  
21 also provide the data to you.

22                   COMMISSIONER MOELLER: Good. Well I'm glad  
23 you're watching it, and I will be following up with you on  
24 that. Thank you.

25                   CHAIRMAN WELLINGHOFF: Commissioner Norris?  
26

1                   COMMISSIONER NORRIS: Thanks. Just a couple of  
2 questions on slide 9. You point out that the increase in  
3 exports to Mexico, 24 percent, and we're starting to export  
4 Marcellus Shale to Canada in the second half of 2012.

5                   How significant are those volume numbers? And  
6 how--well, maybe a better comparison is how do they compare  
7 to proposed LNG export facilities that are in license  
8 application at the DOE?

9                   MR. CABRALES: If we add the exports to Mexico,  
10 which in 2012 totalled 1.7 Bcf a day to the Canadian  
11 exports, we come up with a total of 4.4 Bcf a day. To date,  
12 there have been approximately 27.7 Bcf a day of export  
13 capacity proposed by the different companies. So that would  
14 be about 15 percent of capacity.

15                   When we break it down, the exports to Mexico have  
16 been going up quite a bit over the last two years, two or  
17 three years, and we foresee that that is going to continue  
18 into--for at least the next two or three years.

19                   When I look at the exports to Mexico by  
20 themselves, you know, 1.7 Bcf a day, it is very close to the  
21 Chaniere-Sabin plant, which is expected to export about 2  
22 Bcf a day at maximum capacity.

23                   COMMISSIONER NORRIS: Good. That gives me some  
24 perspective on what we're looking at.

25                   The slide 12 talked about the energy efficiency  
26

1 programs, and the reduction they've had in our overall load  
2 or demand, driven a lot by state energy efficiency programs.  
3 Have you broken out, or looked at what kind of energy  
4 efficiency programs that are contributing the most to that?  
5 Is it lighting? Is it weatherization? Or is it time-of-use  
6 rates? Or any insight there?

7 MR. HAYMES: The programs that are covered--and  
8 we looked at numerous states, and the programs cover a wide  
9 array of different programs mostly in the rebates and  
10 targeting efficiency of appliances, lighting, and so forth,  
11 investments that will increase the efficiency of those  
12 items.

13 Not a lot of the programs--and I'm not sure I  
14 could mention any at all that went on the rate design side  
15 of these programs. Most of them are targeted toward the  
16 usage side.

17 COMMISSIONER NORRIS: To make sure I'm clear, so  
18 most was on the usage side. It wasn't a matter of not  
19 measuring rate design? They just haven't had a big impact  
20 yet?

21 MR. HAYMES: The types of programs that were  
22 being measured, these are generally run by state energy  
23 offices and so forth, and those programs that were measured  
24 were of the usage variety as opposed to those that targeted  
25 the rate design, as a general statement. There may have  
26

1       been some of that in there, but it's not as much.

2                   COMMISSIONER NORRIS:  Would it be safe to say  
3       that if there is greater penetration of dynamic rates and  
4       time-use rate we will see another element of efficiency?

5                   MR. HAYMES:  That is certainly possible that  
6       there would be additional benefits that we could see there.

7                   COMMISSIONER NORRIS:  Thanks, Mr. Chairman.

8                   CHAIRMAN WELLINGHOFF:  Thank you, John.  Cheryl?

9                   COMMISSIONER LaFLEUR:  Well thank you very much  
10      for a very comprehensive report.  My colleagues have already  
11      probed on a lot of the--everything from Phase Angle  
12      Regulators to State Energy Efficiency Programs.

13                   I just wanted to follow up on Phil's question on  
14      the financial markets.  Would the decline of trading in the  
15      electricity financial market in 2012, could you comment at  
16      all on what might be driving that?  Or any implications for  
17      the electric markets?

18                   MS. ROYSTER:  So far, the staff was not able to  
19      assess a negative impact on the energy markets because of  
20      these volume declines.  Because these volume declines is  
21      part of a longer term trend that started in 2008.

22                   Also, we noticed the same trend happening on the  
23      physical markets as expressed in the data that I receive  
24      from the EQR reporting.

25                   Volumes are just a part of the market health.  In  
26

1 addition to that, the staff is monitoring the open interest,  
2 which is actually the transactions that are not closed at  
3 the end of the day, and those remain high, and at really  
4 good record levels. And they are also increasing.

5 In addition, another measure of looking at the  
6 market health is on the spread between the bid and ask. And  
7 that remains at a tight level, which is also a positive  
8 sign.

9 COMMISSIONER LaFLEUR: Well thank you, very much,  
10 Roxana, and thank you all for staying on top of it. Thank  
11 you.

12 CHAIRMAN WELLINGHOFF: Thank you, Cheryl. Tony?

13 COMMISSIONER CLARK: No additional questions.  
14 Thanks.

15 CHAIRMAN WELLINGHOFF: Thank you. Thank you,  
16 again, Panel, for all your hard work.

17 Madam Secretary, the next presentation item,  
18 please.

19 SECRETARY BOSE: The next item for discussion and  
20 presentation is Item A-4 concerning the 2013 Summer Energy  
21 Market Assessment. There will be a presentation by David  
22 Burnham from the Office of Electric Reliability, and Devin  
23 Hartman and Eric Primosch from the Office of Enforcement.  
24 They are accompanied by Eddy Lim from the Office of Electric  
25 Reliability, and Henry Aszklar and Chris Ellsworth from the  
26

1 Office of Enforcement. There will be a PowerPoint  
2 presentation on this item.

3 CHAIRMAN WELLINGHOFF: Thank you.

4 (A PowerPoint presentation follows:)

5 MR. HARTMAN: Good morning.

6 CHAIRMAN WELLINGHOFF: Good morning.

7 MR. HARTMAN: Mr. Chairman, Commissioners, we are  
8 pleased to present the Summer 2013 Energy Market and  
9 Reliability Assessment, a joint effort of the Office of  
10 Enforcement and the Office of Electric Reliability.

11 The Summer Assessment is the staff's annual  
12 opportunity to share our assessment of the electric, natural  
13 gas, and other energy markets as we head into the summer  
14 months.

15 This presentation does not necessarily reflect  
16 the views of the Commission or of course any Commissioner.

17 Market conditions going into the summer will  
18 reflect the rebound in natural gas prices and the  
19 anticipation of a warmer-than-normal summer for most of the  
20 country. The markets are expected to see greater coal burn  
21 in reaction to higher natural gas prices and utilize demand  
22 response programs to manage peak loads.

23 As weather is an important but unpredictable  
24 factor, there may be localized price spikes particularly in  
25 the South Orange County and San Diego area as constraints  
26

1       become acute.

2                   The key takeaways from today's presentation are  
3       as follows:

4                   In general, reserve margins remain adequate with  
5       the exception of Texas. The availability of the San Onofre  
6       Nuclear plant remains a key market and reliability factor in  
7       South Orange County and San Diego.

8                   Higher natural gas prices should favor dispatch  
9       of coal plants over natural gas plants in some regions--  
10      especially the Midwest, Rockies, and Mid-Continent.

11                  Higher natural gas forward prices are translating  
12      into higher electricity forward prices. While forwards are  
13      not a forecast of prices, they may portend upward price  
14      trends on power prices for the summer. Dave will next  
15      discuss the summer assessment from a reliability  
16      perspective.

17                  MR. BURNHAM: NERC's Summer Assessment indicates  
18      that reserve margins will exceed planning targets in most  
19      regions of the country this summer.

20                  However, in Texas ERCOT is forecasting a reserve  
21      margin of 12.9 percent, which is below its reserve margin  
22      target of 13.75 percent.

23                  For California, WECC is forecasting a reserve  
24      margin of approximately 19 percent, 4 percentage points  
25      above the reserve margin target of 15 percent.

26

1 Overall, NERC forecasts that the total U.S. load,  
2 when weather adjusted, will rise approximately 1 percent  
3 compared to last year. Some areas such as ERCOT are  
4 projecting load growth over the next year, while other areas  
5 are projecting that loads will remain flat or decline.

6 The NERC Summer Assessment forecasts that the  
7 summer installed nameplate wind capacity will increase by  
8 about 9 gigawatts, or about 19 percent, from 2012.

9 This will bring the total nameplate capacity  
10 across the Nation to approximately 56 gigawatts. The  
11 forecasted average on-peak wind capacity for this summer is  
12 15 percent of the nameplate capacity.

13 WECC also projects that approximately 2 gigawatts  
14 of new utility-scale solar capacity will come online this  
15 summer primarily in Southern California and Arizona.

16 WECC's on-peak capacity forecast for this  
17 generation is 99 percent of the nameplate capacity.  
18 Industry reports also indicate that by the end of 2013 total  
19 installed solar capacity in the United States is expected to  
20 top 12 gigawatts when utility-scale residential and  
21 commercial installations are included.

22 A number of utilities in the Eastern  
23 Interconnection have announced intentions to retire older  
24 fossil fuel generating units over the next few years. In  
25 PJM for example, approximately 5 gigawatts of capacity has  
26

1 retired since last summer for a net loss of roughly 2.5  
2 gigawatts.

3 According to NERC and the Regions, reserve  
4 margins are generally projected to exceed planning targets  
5 for this summer. Planning coordinators continue to support  
6 reliable operations in areas experiencing higher than normal  
7 levels of plant retirements through the development of new  
8 capacity resources, operating procedures, transmission  
9 upgrades, and reliability must-run agreements.

10 ERCOT is projecting a reserve margin of 12.9  
11 percent, assuming that normal weather conditions occur in  
12 Texas this summer. This forecast reserve margin is  
13 approximately one percentage point below the reserve margin  
14 target.

15 With declining reserve margins, ERCOT faces an  
16 increasing risk that load could exceed available capacity  
17 during an extreme heat wave with higher than normal forced  
18 generation outages.

19 ERCOT forecasts that over 2.7 gigawatts of demand  
20 response resources and 1 gigawatt of new generation will be  
21 available to operators this summer.

22 Stakeholders and regulators in Texas continue to  
23 work on policies and initiatives to promote the development  
24 of new generation and increase participation in demand  
25 response programs.

26

1           While drought remains a concern in Texas, ERCOT  
2 projects that sufficient cooling water will be available for  
3 power generation this summer.

4           In Southern California, the San Onofre Nuclear  
5 Generating Station between Los Angeles and San Diego remains  
6 offline. While NERC forecasts that reserve margins in  
7 California as a whole will remain adequate, transmission  
8 constraints will continue to limit transfers into the Los  
9 Angeles Basin and San Diego, particularly under multiple  
10 contingency conditions.

11           Three new generators are projected to enter  
12 service in the area over the summer, and Southern California  
13 Edison is continuing to work on transmission reconfiguration  
14 and voltage support projects in Southern Orange County.  
15 Entities in the area are also working to increase demand  
16 response and conservation measures.

17           Eric will now discuss market conditions heading  
18 into the summer.

19           MR. PRIMOSCH: The unavailability of the San  
20 Onofre Nuclear Generating Station will make capacity tight  
21 in the transmission-constrained South Orange County and San  
22 Diego area resulting in limited imports and use of higher-  
23 cost local generation.

24           Constrained transmission into the area also  
25 yields the potential for price spikes in the real-time  
26

1 market as were experienced last summer.

2 In addition, drought conditions in the West  
3 increase fire hazards, potentially affecting regional  
4 transmission and generation capability.

5 Finally, California's Greenhouse Gas  
6 Cap-and-trade Program has placed upward pressure on prices  
7 in California, further compounding the cost of operating  
8 less-efficient generation dispatched within transmission  
9 constrained zones.

10 Given the confluence of potentially negative  
11 events in South Orange County and San Diego, the market is  
12 likely to experience greater volatility with upward price  
13 pressures. Staff will monitor the market operations  
14 closely, including the tight supply and demand conditions,  
15 and for any market participant behavioral issues.

16 Adjusted for the relative efficiency of coal and  
17 natural gas-fired power plants, current U.S. natural gas  
18 prices are 78 cents per MMBtu higher than Central  
19 Appalachian coal prices, the highest separation between  
20 natural gas and coal prices since July 2010. With the  
21 rebound in natural gas prices, staff expects less  
22 displacement of coal-fired generation by natural gas this  
23 summer compared to last summer.

24 Natural gas forward prices for July and August  
25 2013 show a dramatic increase compared to 2012 when forwards  
26

1       were below \$2.50 per MMBtu. However, they are similar to  
2       2011 forward prices.

3               Key hubs across the country show similar trends.  
4       Summer forwards at Chicago are \$4.51, \$4.47 at SoCal, and  
5       \$4.73 in New York. The only forward prices below \$4.20 is  
6       at Sumas on the Canadian/Washington border which relies  
7       primarily on hydroelectricity to meet summer power needs.

8               Since natural gas is frequently a marginal fuel  
9       type in electricity markets, it influences electric forward  
10      prices. Devin is going to discuss the effects of rising  
11      natural gas prices on electric forwards.

12              MR. HARTMAN: Electric prices for the forward  
13      summer strip this year are 25 percent to 58 percent higher  
14      than similar forwards a year ago. The 2012 electricity  
15      forwards reflected low marginal fuel costs tied to the  
16      exceptionally low gas prices of last summer.

17              This summer's forward prices are comparable to  
18      those of 2011 in the PJM Western, Cinergy/Indiana, and Mass  
19      Hubs, but higher in Mid-C, SP-15, and Palo Verde. The  
20      increase in the latter three hubs is largely attributable to  
21      a decrease in hydroelectric generation availability from  
22      2011 to 2013.

23              NOAA predicts another warmer-than-normal summer  
24      for most of the country. Like last year's prediction, the  
25      exceptions are the Pacific Coast and the Pacific Northwest  
26

1 where normal temperatures are expected.

2 The Four Corners and Great Basin areas of the  
3 West look to have the greatest chances of above-average  
4 temperatures. NOAA also expects an increased chance of  
5 below-normal precipitation within an area extending from the  
6 Texas Panhandle and New Mexico, and through the central  
7 Rockies to most of Oregon and Northern California through  
8 the summer months.

9 It appears that those areas of the central and  
10 western U.S. currently experiencing drought will not  
11 experience much improvement in these conditions.

12 Early forecasts for the hurricane season from  
13 Colorado State University call for higher-than-normal  
14 activity for the Atlantic this summer, with 18 named storms  
15 of which 9 will become hurricanes, 4 of which will become  
16 major. Seven hurricanes are considered normal for a  
17 season.

18 Generally speaking, hurricanes do not have as  
19 large an impact on U.S. energy markets as they did several  
20 years ago due to the shift in U.S. natural gas production  
21 away from the Gulf of Mexico and to onshore shale  
22 production.

23 The shift back and forth in the dependence on  
24 natural gas-fired generation compared to coal is having an  
25 impact on power markets.

26

1 High levels of natural gas power burn means that  
2 natural gas supply dependability becomes more important.  
3 This continues to be a focus of the Commission's gas-  
4 electric coordination initiative.

5 As in recent summers, and particularly since this  
6 summer is predicted to be warmer than normal, demand  
7 response may be an important ingredient in managing peak  
8 loads.

9 Regions such as PJM, New York, and ISO New  
10 England relied upon demand response to manage high load  
11 periods during the summers of 2011 and 2012. With growth in  
12 demand response resources, their use may have a growing  
13 market impact during the summer period.x

14 This concludes our prepared remarks. We will  
15 answer any questions that you have. Thank you.

16 CHAIRMAN WELLINGHOFF: Devin, thank you. Thank  
17 you, Devin, Dave, and Eric. Thank you for the presentations  
18 and the full team for all the work that you did on this.  
19 It's very hard work, and we appreciate getting the Summer  
20 Assessment and finding out where we might be this summer.

21 I've got a few comments and questions.

22 An interesting point on the hurricanes. I hadn't  
23 thought about how we are less vulnerable now given that  
24 we've got more onshore gas ultimately from the shale than we  
25 did from the offshore production. That is an interesting  
26

1 thing to think about.

2 One area I want to talk about is that--I am  
3 trying to hold my tongue here--Texas. We are going to talk  
4 about Texas, because Texas is one of those frustrating areas  
5 where we have limited jurisdiction. As you know, we only  
6 have jurisdiction over reliability. We have no jurisdiction  
7 over markets and can't influence markets.

8 But it appears from your presentation that there  
9 is at least potentially a problem in Texas, a projected  
10 reserve margin that are under their target. One of the  
11 things I want to understand is what does that target mean,  
12 the 13.75 percent? Because I had heard, or I read in some  
13 of the trade press recently, that ERCOT, or perhaps the  
14 Texas PUC, I'm not sure who the arbivinity would be, was  
15 thinking of increasing the reserve margin to 16--the target  
16 to 16 percent. So I want to know what the target means and  
17 what the effect would be of increasing to 16 percent of they  
18 can't even meet 13.75. If you have any idea on that?

19 MR. BURNHAM: First of all, the reserve margin  
20 target in Texas is essentially a voluntary target.

21 CHAIRMAN WELLINGHOFF: Okay.

22 MR. BURNHAM: It's not a mandatory target. And  
23 it is based on a--it's based on a study of probability of  
24 having essentially a shortage event over a 10-year period.  
25 And there are proceedings right now that may result in an

26

1       increase in that target. It wouldn't affect the target for  
2       this summer, but it would affect the target for future  
3       years.

4                   CHAIRMAN WELLINGHOFF: So what would be the  
5       effect of increasing the target to 16? How would that help  
6       things, or could it help things?

7                   MR. BURNHAM: It would provide a stronger, more  
8       accurate indication of the level of generation that is--the  
9       level of resources that are needed to meet the probability  
10      targets.

11                  CHAIRMAN WELLINGHOFF: The contingency. Okay.

12                  And you talked about demand response, which is  
13      one way to respond to these shortages, the 1.7 gigawatts  
14      that they have. What seems to me to be in proportion a lot  
15      less than say PJM has 15 gigawatts of demand response,  
16      although they are bigger, but PJM is not 7 times bigger than  
17      ERCOT. So do you have any idea why they have a  
18      proportionately lower amount of demand response in Texas?

19                  MR. BURNHAM: The programs in Texas are of a  
20      somewhat different flavor to the programs at PJM, and Texas  
21      is working to offer additional demand response programs.  
22      They have a pilot program this summer for weather sensitive  
23      loads, which were not previously eligible for participating  
24      in the demand response programs.

25                  CHAIRMAN WELLINGHOFF: But certainly anything  
26

1           they could do there with respect to demand response would  
2           help them with respect to their reserve margin issues.

3                       MR. BURNHAM:   Yes.

4                       CHAIRMAN WELLINGHOFF:   And then it's good to see  
5           that the WECC is projecting that 99 percent of the nameplate  
6           capacity of solar will be available on-peak.  Obviously  
7           solar then is going to help contribute to reducing those  
8           peak loads in the West.

9                       MR. BURNHAM:   Yes.  And that is on-peak capacity  
10          forecast.

11                      CHAIRMAN WELLINGHOFF:   Right.  All right, thank  
12          you very much.  Colleagues, questions?  Phil?

13                      COMMISSIONER MOELLER:   Thank you, Mr. Chairman.  
14          I think for a little preview for this afternoon we can  
15          perhaps get some answers for your questions from the CEO of  
16          ERCOT who will be joining us at 1:30.

17                      (Laughter.)

18                      COMMISSIONER MOELLER:   Thank you for the  
19          presentation.  Always good to get this every year.  We have  
20          got some challenges.

21                      My bigger concern is the summer of 2015, as we  
22          deal with a lot of coal plants being shut down and  
23          converted.  But nevertheless, we have our issues for this  
24          summer.

25                      Particularly, I guess Eric I want to go to Slide  
26

1 9, Southern California that always concerns me. Part of  
2 what I bring to this job every day is recollection of what  
3 happened starting in May of 2000 affecting the entire West  
4 Coast when market flaws were exposed, and the financial  
5 devastation that occurred for the whole West Coast for about  
6 a year-and-a-half, two years.

7 So I try and think defensively about problems  
8 that we can perhaps do something to avoid. And I guess my  
9 concern is, you have alluded to it in the presentation.  
10 Flows are way down in California. People forget how much  
11 hydro is in California still.

12 We have already had some wildfires. SONGS is  
13 out. We've got transmission constraints and some plants  
14 being reconfigured in Southern California. And I can kind  
15 of see a very bad-case scenario lining up where a state that  
16 still imports 30 percent of its electricity is limited  
17 perhaps through a wildfire affecting transmission.

18 I am curious of your thoughts on how the specific  
19 mechanism of Cap-and-Trade, and the fact that there are only  
20 quarterly auctions for the secondary permits this year--  
21 there wouldn't be an auction between May and September--I  
22 could see a real problem in August, and lack of liquidity in  
23 that secondary market perhaps drying up some of the trading  
24 and import capability.

25 Have you been considering that at all, and  
26

1 working with perhaps your other colleagues in Enforcement  
2 who are focusing more on the trading in that market?

3 MR. HARTMAN: We have, not forward looking but  
4 sort of in retrospect here analyzed some of the data that  
5 has been in play for the short period that Cap-and-Trade has  
6 been in place.

7 To your concern on limiting imports, staff  
8 analysis right now has not seen any evidence that Cap-and-  
9 Trade has limited imports into California.

10 COMMISSIONER MOELLER: Well they're going to a  
11 monthly auction I believe next year, but I hope you will be  
12 watching the fact that if there are only quarterly auctions  
13 and there's not one between May and September, you could  
14 have people who don't have the permits and hence are  
15 reluctant to trade into that market.

16 MR. HARTMAN: That sounds like a good research  
17 project coming up for us down the road.

18 COMMISSIONER MOELLER: Thank you.

19 (Laughter.)

20 COMMISSIONER MOELLER: With your blessing, Mr.  
21 Chairman.

22 CHAIRMAN WELLINGHOFF: Absolutely.

23 COMMISSIONER MOELLER: Staff will work on that.

24 CHAIRMAN WELLINGHOFF: Certainly.

25 COMMISSIONER MOELLER: And I will be eager to  
26

1 hear your results. Thank you.

2 CHAIRMAN WELLINGHOFF: Thank you, Commissioner  
3 Moeller.

4 Commissioner Norris.

5 COMMISSIONER NORRIS: Thanks. I think we will  
6 learn some more this afternoon, but I was pleased to see--  
7 this is consistent with the briefings I have been receiving  
8 from Reliability that particularly the Eastern U.S. is doing  
9 a good job of managing the retirements of facilities, and  
10 keeping their reserve margins at a manageable level.

11 A follow up to the Chairman's questions on Texas.  
12 I know Texas is looking at different approaches to resource  
13 adequacy and how they can approach that, but any background  
14 on how--and we may get more on this this afternoon--but any  
15 background on what led to this situation? Is this load  
16 growth? Is this plant retirements?

17 MR. BURNHAM: It's a combination of factors in  
18 Texas. Load has been continuing to grow in Texas over the  
19 past several years, and while there has been some generation  
20 development it has generally not kept pace with load growth.  
21 So it's those two factors coming together.

22 I'm sure ERCOT can also provide more information  
23 this afternoon.

24 COMMISSIONER NORRIS: I just thought I would ask  
25 you so we can give them something to respond to this  
26

1 afternoon.

2 (Laughter.)

3 COMMISSIONER NORRIS: But I'm sure they'll be  
4 prepared for a response to that question, either way.

5 And then just one final question. I never  
6 thought gas was going to stay at \$2.50. I thought \$4 to \$5  
7 may be a sustainable range for long-term exploration and  
8 extraction. Any projections on your part about what it  
9 takes--what we will see? Is this a stable price signal from  
10 gas now? Is there anything on the mid- or long-term horizon  
11 that would give us any insight to whether \$4 to \$5 will be  
12 consistent in the long term?

13 MR. PRIMOSCH: We think that this \$3.50, \$4.50  
14 range is the sweet spot for natural gas prices. The prices  
15 are high enough to incentivize some production growth, but  
16 not too high to price gas generators and industrials out of  
17 the market.

18 And, you know, we think that these prices should  
19 remain in this range, again unless we see some extremely  
20 abnormal weather conditions. But I think this is a pretty  
21 solid range of gas prices right now.

22 COMMISSIONER NORRIS: Thanks. Thanks, Jon.

23 CHAIRMAN WELLINGHOFF: Thank you, John.

24 Commissioner LaFleur?

25 COMMISSIONER LaFLEUR: Well thank you all for an  
26

1       excellent report. I have a couple of questions. The first  
2       one really is picking up Commissioner Norris's last  
3       question.

4               I actually was a little surprised to see in the  
5       report that gas forwards were so much higher than in 2011,  
6       and thus pushing electricity forwards up. Could you comment  
7       on why you think gas prices have risen so much in the past  
8       year?

9               MR. PRIMOSCH: Sure. I think again it's all  
10       relative to last winter. As we mentioned in the State of  
11       the Markets, or previous presenters mentioned in the State  
12       of the Markets Report, last winter was one of the warmest on  
13       record. It pushed storage inventories at record levels, and  
14       then gas prices tanked.

15              However, this past winter we saw--it was more  
16       closer to normal, which caused a 22 percent increase in  
17       residential and commercial gas demand over the last year.  
18       And this in turn reduced storage inventories pretty  
19       significantly.

20              Heading into this recent injection season,  
21       storage levels were 30 percent below last year and 5 percent  
22       below the 5-year average. So lower inventories, plus we saw  
23       some late cold weather going almost into spring. We saw gas  
24       prices start to rise from \$3 to the \$4 range.

25              COMMISSIONER LaFLEUR: Thank you. That is very  
26

1 helpful.

2 MR. PRIMOSCH: No problem.

3 COMMISSIONER LaFLEUR: My other question is  
4 focusing in on Southern California. Given the tight  
5 situation we expect to see there this summer, we get  
6 excellent reports from WECC on all the things that they have  
7 been doing, or leading in response to the September 2011  
8 outage report. But looking at the San Diego outage that did  
9 happen in September 2011 really demonstrated the  
10 vulnerability of the transmission grid in that area.

11 Could you comment at all? Are you comfortable  
12 that we've done everything we can in response to that outage  
13 to get ready for this summer? Are there things we should be  
14 putting the pedal to the metal a little more? Anything we  
15 can learn? Because that's the very region of the country  
16 that seems to be the problem spot because of SONGS being  
17 out.

18 MR. BURNHAM: The joint FERC-NERC Report on the  
19 September 2011 outage down there did include a large number  
20 of recommendations, some of which have been implemented by  
21 the entities, some of which are still in progress. The  
22 recommendations covered a wide variety of things, from  
23 short-term issues to longer term things.

24 There have been a number of improvements to  
25 planning, coordination, and operations in that area.

26

1                   COMMISSIONER LaFLEUR: Well thank you. As I  
2 recall the report, situational awareness among all the  
3 entities in that region was really one of the key  
4 recommendations. And it seems like we will really need it  
5 this summer, and I am sure they are very alert to that, but  
6 I just wanted to highlight it.

7                   Thank you.

8                   CHAIRMAN WELLINGHOFF: Thank you, Cheryl. Tony?

9                   COMMISSIONER CLARK: Thanks for a very  
10 interesting report. A lot of ink was spilled, appropriately  
11 so, on California and Texas, regions that I share a concern  
12 about but for two very different reasons.

13                   Clearly there are two different issues at play  
14 there with Texas being the general operating reserves, and  
15 in the West maybe overall adequate reserves but very  
16 specific locational problems.

17                   I am curious about if there was any further  
18 analysis done on the Eastern Interconnection, and I guess  
19 dovetailing a bit with Commissioner Moeller's comments  
20 about 2015. But if there are any nearer term issues that  
21 were identified in the Eastern Interconnection where,  
22 either in the Midwest, or the Southeast, PJM, maybe on an  
23 overall basis operating reserves, the margins are okay but  
24 there may be some localized concerns with a plant  
25 retrofit, or a coal plant going down and converting to gas,  
26

1 or scrubbers being installed, anything like that that was  
2 identified in the upcoming period as opposed to we know  
3 some greater significant concerns maybe down the road in a  
4 few years?

5 MR. BURNHAM: The NERC Summer Assessment, which  
6 was actually released last night, includes the reserve  
7 analysis for all areas of the country. And you're right, it  
8 generally is adequate, especially across the Eastern  
9 Interconnection.

10 We have not heard any specific concerns from  
11 industry about plant outages or availability this summer.  
12 That is something that planning coordinators are continuing  
13 to look at in the 2014-2015-2016 time range.

14 We will be looking for more information from NERC  
15 this fall when the long-term reliability assessment comes  
16 out, which will have 10-year projections.

17 COMMISSIONER CLARK: Great. Thank you.

18 CHAIRMAN WELLINGHOFF: Thank you, Tony. If  
19 there's nothing further on this, gentlemen thank you very  
20 much. I appreciate it.

21 Madam Secretary, our next presentation and  
22 discussion item.

23 SECRETARY BOSE: The next item for presentation  
24 and discussion is Item E-5. This is a draft final rule  
25 concerning reliability standards for geomagnetic  
26

1       disturbances. There will be a presentation by Matthew  
2       Vlissides from the Office of the General Counsel. He is  
3       accompanied by Regis Binder and David Huff from the Office  
4       of Electric Reliability.

5               MR. VLISSIDES: Good morning, Mr. Chairman,  
6       Commissioners.

7               CHAIRMAN WELLINGHOFF: Good morning.

8               MR. VLISSIDES: Today we will provide a summary  
9       of E-5, a draft Final Rule on Reliability Standards for  
10       Geomagnetic Disturbances. The draft Final Rule directs the  
11       North American Electric Reliability Corporation, or NERC,  
12       pursuant to the Commission's authority under Section  
13       215(d)(5) of the Federal Power Act, to develop Reliability  
14       Standards that address the potential impacts of geomagnetic  
15       disturbances on the Bulk-Power System.

16               The draft Final Rule directs NERC to develop and  
17       submit proposed Reliability Standards on this matter for  
18       Commission approval in two stages.

19               In the first stage, the draft Final Rule directs  
20       NERC to develop and submit for approval one or more  
21       Reliability Standards that require owners and operators of  
22       the Bulk-Power System to develop and implement operational  
23       procedures to mitigate the effects of generation  
24       disturbances consistent with the reliable operation of the  
25       Bulk-Power System.

26

1           The draft Final Rule directs NERC to submit the  
2 proposed First Stage GMD Reliability Standards within six  
3 months of the effective date of the draft Final Rule.

4           In the second stage, the draft Final Rule directs  
5 NERC to develop and submit for approval one or more  
6 Reliability Standards that require owners and operators of  
7 the Bulk-Power System to conduct initial and ongoing  
8 assessments of the potential impact of "benchmark GMD  
9 events" on Bulk-Power System equipment and the Bulk-Power  
10 System as a whole.

11           These benchmark GMD events should specify what  
12 severity GMD events a responsible entity must assess for  
13 potential impacts on the Bulk-Power System. Based on those  
14 assessments, the Reliability Standards should require owners  
15 and operators of the Bulk-Power System to develop and  
16 implement a plan to protect against instability, uncontrolled  
17 separation, or cascading failures of the Bulk-Power System  
18 caused by damage to critical or vulnerable Bulk-Power System  
19 equipment, or otherwise, from a benchmark GMD event.

20           The draft Final Rule does not require NERC to  
21 adopt a particular type of GMD mitigation plan. However,  
22 the development of the plans cannot be limited to  
23 considering operational procedures or enhanced training  
24 alone.

25           Instead, subject to the needs identified in the  
26

1 assessments, the plan should contain strategies for  
2 protecting against the potential impact of benchmark GMD  
3 events based on factors such as the age, condition,  
4 technical specifications, or location of specific  
5 equipment.

6 The draft Final Rule directs NERC to submit the  
7 proposed Second Stage GMD Reliability Standards within 18  
8 months of the effective date of the draft Final Rule.

9 The draft Final Rule addresses issues raised in  
10 the OPR comments. To allow more time for the NERC standards  
11 development process, the draft Final Rule extends the  
12 deadline for submitting the First Stage GMD Reliability  
13 Standards from 90 days as proposed in the NOPR, to 6 months.

14 The draft Final Rule also extends the deadline  
15 for submitting the Second Stage GMD Reliability Standards  
16 from 6 months as proposed in the NOPR to 18 months. The  
17 draft Final Rule also focuses the scope of the Second Stage  
18 GMD Reliability Standards by directing NERC to identify  
19 "benchmark GMD events" that define the severity of GMD  
20 events that responsible entities need to assess and mitigate  
21 against.

22 And the final rule clarifies that the NOPR was  
23 not proposing to require any specific technology or type of  
24 GMD mitigation as part of the Second Stage GMD Reliability  
25 Standards, and the draft Final Rule does not direct NERC to  
26

1 adopt any specific technology in its Reliability Standards.

2 The draft Final Rule further clarifies that the  
3 Commission's goal in directing NERC to address the potential  
4 impacts of geomagnetic disturbances on the Bulk-Power System  
5 by stating that the GMD Reliability Standards should include  
6 requirements whose goal is to prevent instability,  
7 uncontrolled separation, or cascading failures of the Bulk-  
8 Power System when confronted with a benchmark GMD event.

9 However, given that the scientific understanding  
10 of GMDs is still evolving, the draft Final Rule recognizes  
11 that compliance with such requirements cannot prevent  
12 instability, uncontrolled separation, or cascading failures  
13 in all cases.

14 This concludes our presentation, and we are happy  
15 to take any questions you may have.

16 CHAIRMAN WELLINGHOFF: Thank you. Thank you,  
17 Matt, and I want to thank members of the team for working on  
18 this proposed Final Rule.

19 I note that this Final Rule is one of the first  
20 on the Commission's own motion, using our authority to  
21 propose Reliability Standards to address a specific matter.  
22 And because there was a general consensus in the study cited  
23 by the rule that geomagnetic disturbance events can cause  
24 voltage instability and voltage collapse thus affecting the  
25 reliable operation of Bulk-Power Systems, I think it is  
26

1 important that the Reliability Standards address the risk  
2 posed by GMD.

3 I want to emphasize that an important part of  
4 both the proposed and Final Rule is that we do allow NERC  
5 flexibility in how to address the concerns identified by the  
6 Commission.

7 Further, I would expect the GMD issues being  
8 worked on by the NERC Task Force will be leveraged to  
9 support the development and implementation of these new  
10 Standards. And I look forward to reviewing the Standards  
11 that NERC produces as a result of this Rule, and I intend to  
12 vote in favor of the Rule.

13 With that, colleagues, comments?

14 COMMISSIONER MOELLER: Thank you, Mr. Chairman.  
15 I defer I guess to Commissioner LaFleur who has been a  
16 leader on this issue, as Commissioner Norris has been on the  
17 next issue we will be discussing.

18 But I just want to say, a little bit tongue-in-  
19 cheek, that when we put this out in April I warned you about  
20 potential earthquakes, volcanoes, droughts, plagues, and  
21 meteors--and the meteor showed up.

22 (Laughter.)

23 COMMISSIONER MOELLER: So I'll leave it at that.

24 CHAIRMAN WELLINGHOFF: You got one of them right,  
25 yes. Commissioner Norris?

26

1                   COMMISSIONER NORRIS: Well just to follow up on  
2 that, I've got to raise the irony of relying on Colorado  
3 State University for hurricane information.

4                   (Laughter.)

5                   COMMISSIONER NORRIS: I would just echo some of  
6 your comments, Mr. Chairman. That is, I think we all  
7 recognize NERC, everyone, the stakeholders and FERC, that  
8 there are gaps here. I think we provide flexibility--some  
9 high-level guidance, but flexibility to NERC and deference  
10 to the industry and their expertise to come up with a plan  
11 that will work here, and Standards that will keep our system  
12 up. We all know we can't by rule or law outlaw blackouts,  
13 so how do we make sense of this process going forward? With  
14 reasonable Standards that minimize potential damage, but  
15 also I think important in this rule we recognize that costs  
16 are a factor to consider.

17                   And I am hoping NERC and this Commission can  
18 develop a good record of the costs and benefits of what we  
19 are going to do and achieve, that there is a robust public  
20 record of the decisions we make. My only point here is that  
21 there can be potential huge costs if we try to take--I'll  
22 stop there, other than to say I appreciate the fact that we  
23 have asked NERC to give us a cost/benefit evaluation.  
24 Thanks.

25                   CHAIRMAN WELLINGHOFF: Thank you. And I also  
26

1 want to commend Commissioner LaFleur on her work on this  
2 issue. Commissioner LaFleur?

3 COMMISSIONER LaFLEUR: Well thank you very much,  
4 colleagues, and thank you, Phil, for not predicting any new  
5 disasters.

6 (Laughter.)

7 COMMISSIONER LaFLEUR: Obviously, the issue that  
8 we are talking about today is kind of the ultimate example  
9 of the high-impact/low-frequency threat to the Bulk-Power  
10 System. We all know that there is ongoing debate about in  
11 what way a severe geomagnetic event could disturb the Bulk-  
12 Power System, but there is no debate that it certainly could  
13 cause exactly the kind of issues that the Federal Power Act  
14 directs us to help protect against.

15 I want to thank the team for working on this rule  
16 so promptly. I think it is very timely, not just because we  
17 are in a period of intense solar activity right now, but in  
18 a more meaningful way where something is a long-run issue  
19 like this we have to get started.

20 As Matt said, today's rule largely adopts the  
21 proposals set out in our October NOPR. I really appreciate  
22 all the comments that we have gotten, as well as all the  
23 folks who came in to meet on the proposals, and the Notice  
24 of Proposed Rulemaking.

25 We did make several important changes. As Matt  
26

1 pointed out, extending the timeline, and also making very  
2 clear that we expect NERC to propose a multi-phased  
3 implementation plan. This is a big project, and we have to  
4 figure out how to attack it.

5 Secondly, we give NERC and the industry the  
6 flexibility to identify and propose a benchmark GMD event  
7 using their technical expertise, rather than stipulating  
8 what benchmark event they have to protect against.

9 The rule makes clear that we are not prescribing  
10 any specific technology. I know from all the folks who came  
11 in to see me there was quite a lot of concern that we were  
12 prescribing automatic blocking. Rather, we are directing  
13 industry to apply its technical expertise to develop and  
14 implement a plan to protect against the instability,  
15 separation, or cascading failures that can be caused by a  
16 benchmark GMD event.

17 We explicitly recognize that there might be a  
18 range of solutions, even across a one-company system,  
19 depending on geography, equipment condition, and system  
20 configuration, as well as other factors. And the rule goes  
21 far to recognize the need for that flexibility of approach.

22 And finally, we clarify that we didn't intend to  
23 impose strict liability for outages, which I think was a  
24 concern that inadvertently snuck in after the NOPR. We  
25 heard a lot about making it clear. We do expect robust and  
26

1       technically justified standards to help protect against  
2       these issues.

3               I really appreciate all the work that the NERC  
4       GMD Task Force and others have done on this issue. That  
5       work of monitoring and studying the issue has to continue,  
6       but we also can't wait for finality of a study to get  
7       started on developing prudent actions.

8               At a time when we are investing heavily as a  
9       Nation on our transmission grid, I think it makes good sense  
10      to invest in its resilience for future generations, and this  
11      is a part of that.

12              Finally, while I have the mike, I just want to  
13      single out one individual, already an award winner today,  
14      Joe McClelland, who has really been a national leader on  
15      this issue. For better or for worse, he's the one that  
16      roped me in on this topic and I want to thank him for his  
17      tireless efforts to speak about it around the country.

18              Thank you.

19              CHAIRMAN WELLINGHOFF: Thank you, Commissioner  
20      LaFleur. Commissioner Clark.

21              COMMISSIONER CLARK: Sure. I just note for my  
22      colleagues, I don't know about meteors or earthquake, but if  
23      I read the papers correctly apparently plagues of insects  
24      are actually on their way.

25              (Laughter.)

26

1                   COMMISSIONER CLARK: From the Midwest. I don't  
2 know about these red-eyed bugs, but apparently they're  
3 coming.

4                   I think the phrase of the day for this Order is  
5 probably striking the right balance. And I think this one  
6 does. So I am looking forward to voting on it. If I were  
7 to kind of caption what this Order does, I think number one  
8 it affirms that there's fairly broad consensus that GMD  
9 could result in some form of voltage instability and  
10 subsequent voltage collapse. But number two, it does  
11 acknowledge that there's at least some level of scientific  
12 disagreement over the likelihood of that, or the severity of  
13 what events might ensue.

14                  But taking that all into consideration, it  
15 therefore directs NERC to appropriately address these  
16 concerns without prejudging exactly what NERC may come up  
17 with ultimately and what it may propose, acknowledging that  
18 there may be regional differences that might be out there,  
19 and acknowledging that there needs to be some sort of  
20 cost/benefit analysis.

21                  So I think it does strike that right balance, and  
22 because of that I look forward to voting for it. Thanks for  
23 your work.

24                  CHAIRMAN WELLINGHOFF: Thank you, Commissioner  
25 Clark. I think we are ready to vote, Madam Secretary, on

26

1 E-5.

2 SECRETARY BOSE: And the vote begins with  
3 Commissioner Clark.

4 COMMISSIONER CLARK: I vote yes.

5 SECRETARY BOSE: Commissioner LaFleur.

6 COMMISSIONER LaFLEUR: I vote aye.

7 SECRETARY BOSE: Commissioner Norris.

8 COMMISSIONER NORRIS: Aye.

9 SECRETARY BOSE: Commissioner Moeller.

10 COMMISSIONER MOELLER: Aye.

11 SECRETARY BOSE: And Chairman Wellinghoff.

12 CHAIRMAN WELLINGHOFF: I vote aye.

13 Thank you again, gentlemen. Appreciate it.

14 Madam Secretary, I believe the final presentation  
15 and discussion item.

16 SECRETARY BOSE: The last item for presentation  
17 and discussion is Item E-7 concerning a draft Order on the  
18 Investigation of Formal Rate Protocols. There will be a  
19 presentation by Conor Ward from the Office of the General  
20 Counsel. He is accompanied by Andre Goodson, also from the  
21 office of the General Counsel; Natalie Tingle-Stewart, from  
22 the Office of Energy Market Regulation; and Steven Hunt from  
23 the Office of Enforcement.

24 MR. WARD: Good morning, Mr. Chairman,  
25 Commissioners.

26

1                   CHAIRMAN WELLINGHOFF: Good morning.

2                   MR. WARD: Item E-7 concludes the  
3 Commission-initiated investigation of whether the MISO  
4 tariff's pro forma formula rate protocols and the individual  
5 MISO transmission owners' formula rate protocols are  
6 sufficient to ensure just and reasonable transmission  
7 rates.

8                   In the May 2012 Order establishing this  
9 investigation, the Commission identified and set for a paper  
10 hearing three areas of concern with respect to procedures to  
11 update the formula rates:

12                   First, the scope of participation in the  
13 transmission owners' rate update processes;

14                   Second, the transparency of transmission owners'  
15 update processes;

16                   And third, the ability of parties to challenge a  
17 transmission owner's implementation of the formula rate.

18                   With respect to these three areas of concern,  
19 today's Order concludes that as currently written the  
20 formula rate protocols for the MISO region are insufficient  
21 to ensure just and reasonable rates.

22                   Consequently, today's Order will provide  
23 interested parties with greater access to the information  
24 supporting transmission owners' formula rate updates and  
25 will enable interested parties to challenge those updates.

26

1           First, today's Order requires MISO and MISO's  
2 transmission owners to revise their formula rate protocols  
3 to include a broader range of interested parties, including  
4 state commissions, as eligible participants in transmission  
5 owners' rate update processes.

6           Today's Order additionally requires revisions to  
7 improve transparency by making revenue requirements, cost  
8 inputs, calculations, and other information publicly  
9 available, and by providing interested parties with the  
10 opportunity to review such information.

11           MISO and MISO's transmission owners will also be  
12 required to submit their formula rate updates to the  
13 Commission as informational filings.

14           Lastly, today's Order requires MISO's pro forma  
15 formula rate protocols, and the individual transmission  
16 owners' company-specific formula rate protocols to set forth  
17 a well-defined procedure through which interested parties  
18 may both informally and formally challenge the  
19 implementation of the formula rates.

20           In order to effectuate these changes, today's  
21 Order directs MISO and MISO's transmission owners to file  
22 proposed revisions to their formula rate protocols within  
23 60 days.

24           Thank you, and staff would be happy to answer any  
25 questions that you may have.

26

1                   CHAIRMAN WELLINGHOFF: Thank you, Conor, and I  
2 really appreciate the staff's work on this.

3                   First and foremost, I want to commend  
4 Commissioner Norris for leading us on this Order and really  
5 helping us move forward. It is I think a great Order.

6                   Since MISO was one of the first entities to use  
7 formula rates in 1998, the procedures for sharing inputs and  
8 resolving disputes have evolved significantly. But through  
9 this investigation, the best practices in formula rate  
10 procedures among utilities were compiled.

11                  These best practices will benefit ratepayers by  
12 providing greater transparency in dispute resolution  
13 procedures around formula rates and their related annual  
14 updates. And I am pleased to vote for this Order.

15                  So again I want to thank the team, and I want to  
16 again thank Commissioner Norris for his leadership on this.  
17 Colleagues?

18                  COMMISSIONER MOELLER: I will defer to  
19 Commissioner Norris.

20                  CHAIRMAN WELLINGHOFF: John.

21                  COMMISSIONER NORRIS: Thanks, Chairman.

22                  This one, no questions for you but thanks for  
23 your work on this. I appreciate this. And I do want to  
24 make a statement on this.

25                  I think this--and I continue to support the use  
26

1 of formula rates for all the efficiency attributes and  
2 benefits they provide to multiple parties. The timely  
3 recovery of new-transmission investment through the formula  
4 rate mechanism is important as we continue to respond to the  
5 need for additional information.

6 As the Chairman pointed out, these are 1998  
7 formula rates. I would say that all MISO transmission  
8 owners had the formula rate, as do 75-plus percent of the  
9 130 publicly owned transmission providers in this country.  
10 I don't view today's action as retreating from the  
11 utilization of formula rates. In fact, I think it is a  
12 necessary step in preserving the continuation of them and  
13 the benefits they provide.

14 The key--operative work of the day, Tony--is  
15 balance. The key is that we must balance the ease and  
16 efficiency that formula rates provide not just to  
17 transmission owners but to consumers, state commissions, and  
18 other stakeholders because of the expense saving of full-  
19 blown rate cases that everyone incurs through this process.  
20 But balance that with the assurance that rates remain just  
21 and reasonable.

22 That assurance I believe is dependent upon a set  
23 of formula rate protocols that provide sufficient  
24 transparency and access to data necessary for those paying  
25 the rate to confirm that the formula rates are fairly and  
26

1 accurately administered.

2 So as was pointed out, MISO was one of the early  
3 formula rates approved by this Commission back in 1998; and  
4 the Order recognizes that those formula rate protocols, now  
5 15 years old, have become insufficient to ensure just and  
6 reasonable rates.

7 We are taking the action necessary today to  
8 maintain the confidence in the continued use of this  
9 efficient rate procedure that provides the basis for the  
10 transmission owners' revenue requirement.

11 So I again commend your work. Thanks for the  
12 support of my fellow Commissioners, because we want to  
13 continue to see transmission built in this country. I think  
14 formula rates can be a very important attribute, or a part  
15 of that continuation of building transmission but we have to  
16 make sure there is confidence in those rates throughout all  
17 sectors to see that continue.

18 So thanks for your work on this, and thanks to  
19 the Commission.

20 CHAIRMAN WELLINGHOFF: Cheryl?

21 COMMISSIONER LaFLEUR: No, I am pleased to  
22 support the Order and the increased transparency it brings,  
23 and I thank John for championing it.

24 CHAIRMAN WELLINGHOFF: Tony.

25 COMMISSIONER CLARK: Thanks. No questions. I  
26

1 look forward to voting for the Order.

2 SECRETARY BOSE: Excuse me, Mr. Chairman. The  
3 Court Reporter has asked that you turn on your mike.

4 CHAIRMAN WELLINGHOFF: I'm on now.

5 (Laughter.)

6 SECRETARY BOSE: The vote begins with  
7 Commissioner Clark.

8 COMMISSIONER CLARK: Aye.

9 SECRETARY BOSE: Commissioner LaFleur.

10 COMMISSIONER LaFLEUR: I vote aye.

11 SECRETARY BOSE: Commissioner Norris.

12 COMMISSIONER NORRIS: Aye.

13 SECRETARY BOSE: Commissioner Moeller.

14 COMMISSIONER MOELLER: Aye.

15 SECRETARY BOSE: And Chairman Wellinghoff.

16 CHAIRMAN WELLINGHOFF: I vote aye.

17 With that, if there's no further business before  
18 the Commission, we are adjourned.

19 (Whereupon, at 11:27 a.m., Thursday, May 16,  
20 2013, the 994th meeting of the Federal Energy Regulatory  
21 Commissioners was adjourned.)

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23

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25