



MUNICIPAL ELECTRIC & REMC NEWS FLASH! FERC ORDER 719

Watch out for Wholesale Competition in Regions with Organized Electric Markets

The FERC issued its Order 719 on October 17, 2008. In this Final Rule, the Federal Energy Regulatory Commission (FERC) amended its regulations under the Federal Power Act to improve the operation of organized wholesale electric markets in the areas of:

- 1) demand response and market pricing during periods of operating reserve shortage;
- 2) long-term power contracting;
- 3) market-monitoring policies; and
- 4) the responsiveness of regional transmission organizations (RTOs) and independent system operators (ISOs) to their customers and others.

How does this affect you?

- 1) Demand response and market pricing
 - A. RTO's and ISO's will be required to accept bids from demand response resources
 - B. during emergencies, eliminate charges to a buyer that takes less energy than purchased in the day-ahead market
 - C. permit an aggregator of retail customers (ARC) to bid demand response on behalf of retail customers
 - D. modify market rules to allow clearing prices during periods of operating reserve shortage to encourage rebalancing supply and demand
 - E. study whether further reforms are necessary
- 2) Long-term power contracting
FERC requires RTO's and ISO's to dedicate a portion of their websites for market participants to post offers to buy or sell power on a long-term basis
- 3) Market monitoring policies
FERC requires RTO's and ISO's to provide their internal or external Market Monitoring Units (MMU) with access to market data, resources and personnel sufficient to carry out their duties and report directly to RTO or ISO board of directors for:

- A. identifying ineffective market rules
 - B. reviewing and reporting on the performance of the wholesale markets
 - C. notifying appropriate FERC staff of instances in which a market participant's behavior may require investigation
- 4) FERC obligates each RTO and ISO to make reforms to increase its responsiveness to customers and other stakeholders in compliance with:
 - A. inclusiveness
 - B. fairness in balancing diverse interests
 - C. representation of minority positions
 - D. ongoing responsiveness
 - 5) Each RTO and ISO will be required to make certain filings that propose amendments to its tariff to comply with the requirements in each area, or that demonstrate that its existing tariff and market design already satisfy the requirements.

Traditional generating operations included a substantial amount of spinning reserves. Simply stated, this meant the sum of all online generation capacities exceeded the total load by a substantial margin of perhaps 20% at a cost of about 5% of the plant gross output.

SPOTLIGHT

For over a quarter century Spectrum Engineering has been dedicated to anticipating needs, solving problems, and working closely with our clients. We stand behind our reputation as a knowledgeable, dependable and resourceful partner — focused on helping our clients achieve their objectives.

Utility Operations Assistance is a core discipline where Spectrum can assist our clients with rate study cases, regulatory standards, TOU tariffs, project allocations and business operations.

As related to FERC Order 719, Spectrum can help our clients review their ordinances and policies to ensure that you are protected from stranded investments as the changes in the wholesale electric markets play themselves out.



“Smart Grid”

Do We Really Understand?

One of your customers, board members, employees or news organizations asks you to describe the “Smart Grid” to them...What do you do? As an industry we all have stumbled out of the blocks with this one. As Municipal Electric and REMC providers you are faced with the front line responsibility of communicating, educating and implementing this beast that has a name but not an identity.

In creating this identity, let’s take a web of complex ideas, technology, applications, and practices and bring them down to a few simple terms.

Devices – with smart technology (meters, sensors, protection gear, storage, computing, load control, generation sources, etc...)

Two-way communications (broadband, fiber, wireless, SCADA, GIS, security, etc...)

Regulatory Issues (Purchased Power agreements, Demand Response, TOU Tariffs, Transmission & Distribution management, etc...)

From this list we can explain the “Smart Grid” identity as follows:

“A comprehensive system developed to use the technical innovations of the digital age to maximize the efficient generation, transmission, distribution and use of electrical energy.”

In the coming months we will provide a dialog to assist with the “Smart Grid” questions our industry faces and provide you with insights and industry trends to help you better serve your customers and communities.

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Financial pressures have increased to the point where margins have frequently dropped to less than 10% and cost nearly 20% of the plant gross output.

Operating reserves or margins are no longer determined by the generator operators. This function has been assigned to the RTO dispatchers. Dispatchers rely on the accuracy of several computer forecasting models which are based on weather, circuit loadings, line loss, reactive var flow, voltage profiles, etc. to determine the required generation margins.

The sudden loss of large areas of a transmission system separate generation from its load and if allowed to cascade may lead to widespread outages such as the one experienced in August of 2003.

The Federal government is actively encouraging the development of several green generation technologies such as wind and solar. These technologies are weather dependent but do possess the ability to store energy into efficient storage batteries. It is hoped that the size of the storage batteries will more than make up for the loss of weather dependent generation and significantly increase the operating reserves.

Uncle Sam’s D.C. crew (Congress and Department of Energy) are really pushing hard for ways that competition can lower costs for consumers (voters). One of the ways being promoted is aggregation of loads. This might come quickly in the form of, say, a group of Wal-Mart stores or distribution centers contracting with a power broker to supply energy from a low cost source through the interconnected local utility. If the local utility does not have a contract with the customer which specifically prohibits its displacement or requires just compensation for wheeling and service calls, the local utility might be out of luck – especially if its wholesale purchase power agreement does not allow recovery.

The FERC also encourages long-term contracts. So this experiment might continue for a long while. This might mean some of your customers (the aggregated ones) would be receiving low cost energy while located next door to regular customers who are supporting the utility overheads and paying the regular rate. No mistake about it – the Midwest enjoys lower than average energy costs while those located on both coasts pay more. The idea is to levelize the energy cost nationally. This may be a good idea to some but it is not a good idea for Midwest utilities to subsidize coastal utilities that are located in a higher wage and cost of living environment.

Local utilities can make and take advantage of policies that protect their interests, either through jurisdiction under the Indiana Utility Regulatory Commission or by local government ordinances or by governing board approved and published utility policies or by contract directly with their major customers. It is a good idea to check your rate ordinances, policies and contracts to make sure you are covered before you are challenged with a proposal. Litigation is slow, painful and costly.

All 338 pages of this document may be found at:

FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Part 35 (Docket Nos. RM07-19-000 and AD07-7-000)

EFFECTIVE DATE: This Final Rule will become effective 60 days after publication in the **FEDERAL REGISTER**.

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