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# Wholesale power experts warn of seasonal challenges

## NEM event offers forum for building supply strategies

This winter was a surprise to everyone in the energy industry and its effects will be felt going forward, experts told the National Energy marketers Assn's (NEM's) 17th Annual Restructuring Conference yesterday in Washington, DC. The ISOs are looking at their market designs and considering any changes or incremental procurements that might be needed for next winter – while the gas market will have an impact this summer.

As for this summer, "watch out, gas storage is depleted," said PJM COO Andrew Ott in his presentation at the event. "There is going to be a lot of interaction between gas for power and gas for storage. So this summer we may have a pricing lesson."

FirstEnergy CEO Tony Alexander told a US Chamber of Commerce meeting last month that he was told one pipeline in Ohio will not be able to supply his firm's peakers with gas this summer and when those units are needed, they will burn oil instead.

PJM is considering whether it needs to pay generators to be available in the winter given that so much of the RTO's planning is aimed at summer peaks which are still about 20,000 MWs above what was seen in January. Ott and others there are still calculating the higher forced outage rates, the gas burning plants with fuel issues and the DR products that are only available in summer to see if the RTO needs to offer more money for winter availability, he said at the NEM event.

If PJM sets up a market aimed at ensuring more capacity is available in the winter, it will also come with a greater penalty for unavailability, he warned.

The East Coast wholesale markets were roiled by many cold days in a row and gas prices that spiked to above $100/MMBTU in some areas. All those factors combined led to PJM charging $500 million in uplift for the month of January, which was more than it did in all of the previous year.

"There's a very legitimate concern that's been raised by a number of parties," said FERC Commissioner Tony Clark, "that if you have, over a period of time, a significant number of uplift payments that have the effect of socializing the pain but privatizing the profits, that's also a spot the commission doesn't want to be in." Some part of the situation is due to the $1,000/MWH offer caps that were in place since the California Energy Crisis, he added.

Those need to be reexamined after a winter where generators had legitimate costs that exceeded them, Clark said.

Ott agreed that the time has come to look at the offer caps because keeping legitimate costs out of the market does not make sense – but that was not the biggest problem PJM had this winter. Of the $500 million in uplift, some $300-330 million was due to having to run gas units that were needed for just a few hours for up to 24, 48 or even 72 in one instance, said Ott.

The other $200 million was due to more normal, conservative operations activity with generators going down and operators unsure of what the load would be in weather that had not been seen since the markets began, he added.

**Uplift leads to 'rate-shock'**

"The way we assess these uplift costs right now is rate shock," said Ott. "There's got to be a better way." Uplift costs will happen again – though hopefully not at the level seen in January if gas issues can be dealt with – and PJM can do better with that because it shifts risks onto competitive suppliers, he added.

FERC is working on the gas issues with a series of NOPRs to move the gas day up to start at 4 AM central, allow for more flexibility in scheduling the fuel and then make the RTOs follow any changes, noted Clark. That is unlikely to be in place for next winter, which is why he dissented on the orders, as the discussions between the two industries could have been given some more time to work, he added.

Clark is far from wedded to the commission's proposal and

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would give any industry consensus a fair shake, he said.

**Will NYISO's fortunes hold?**

NYISO had to deal with the same weather as PJM and while its fleet is more gas heavy than its neighbor's to the south, it is blessed with a lot of dual fuel capable units, said its VP of Operations Wes Yeomans. That dual-fuel capability was used often this winter, as the oil price was cheaper than gas for 22 days in those months.

An average price for oil is about $17/MMBTU, which translates into $100/barrel while gas had been $4/MMBTU for the last few years, noted Yeomans. In the winter in the Northeast, gas often gets more expensive than oil on peak days but not as often as this year and not $50/MMBTU more expensive as oil's cost advantage is usually more like a tenth of that.

When power plants in NYISO were dispatched a day ahead and thus had the signal to go out and buy gas, they were able to procure the fuel, Yeomans said. When plants were dispatched at the last minute, that was not necessarily the case.

This winter might have been OK on the gas front in New York, but Yeomans cautioned that might not continue. ISO-NE set up a program to fill its oil unit's tanks and that in effect cut the competition for gas between the two regions.

While the ISO might set up a similar program for next year, if it does not – competition will increase, he added. ISO-NE will also be unable to count on the Vermont Yankee nuclear plant next winter, which could increase its demand for gas.

**Coal plants get shaky**

Changes are afoot in PJM as well, with many coal plants shutting down to comply with EPA regulations and those are generally being replaced with gas units, said Ott. Some 12,000 MWs of coal units will go offline effective June 1, 2015 and Ott believes those units will likely not be super reliable, knowing they will be retiring a few months after next winter.

As PJM shifts to burning more gas to meet demand, that will only create more competition for the fuel among generators in East Coast markets, said Yeomans.