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Wellinghoff Demurs As FERC Backs LNG Project

BY JOHNATHAN RICKMAN

Over firm environmental objections from Commissioner Jon Wellinghoff, the Federal Energy Regulatory Commission last week approved AES Corp.'s proposed Sparrows Point liquefied natural gas import terminal, which is to be built at an industrial complex near Baltimore harbor.

In voting 4-1 to approve the Virginia-based power company's controversial proposed $650 million liquefied natural gas (LNG) facility and associated 88-mile natural gas pipeline, FERC overrode strong opposition from Maryland officials and communities.

Sen. Barbara Mikulski (D-Md.), along with other Democratic members of the Maryland congressional delegation, say providing security for the facility would overburden local law enforcement, and Baltimore County officials tried twice to quash the project by re-jiggering zoning ordinances, only to have their efforts struck down

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Hill To Let DOE Cash Out Renewable Tax Credits—Sources

BY GEORGE LOBSENZ

Lawmakers are drafting provisions to the economic stimulus bill that would address the investment woes slamming wind and solar developers by allowing holders of renewable energy tax credits to effectively cash them in with the Energy Department through a new grant program, sources say.

The provisions are aimed at giving investors in solar and wind a new way to make use of the renewable energy production tax credit (PTC) or the investment tax credit (ITC) at a time when many banks and investment firms are losing money and thus have no interest in credits to reduce their taxes.

Sources also told *The Energy Daily* Wednesday that Sen. Robert Bennett (R-Utah) plans to offer an amendment to the stimulus bill to add $100 billion to DOE's loan guarantee program for all categories of clean energy facilities eligible for such government backing. The Senate Appropriations Committee had been scheduled to mark up the package today, but the markup was postponed late Wednes-

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EPRI: Efficiency Can Cut Demand Growth By 22 Percent By 2030

BY CHRIS HOLLY

U.S. energy efficiency programs could reduce the rate of electricity demand growth by 22 percent over the next 20 years if key market, societal and attitudinal barriers are addressed, according to an analysis released last week by the Electric Power Research Institute that found that new lighting technologies have the potential to deliver the greatest gains.

Demand for power over the next two decades could be cut from the 1.07 percent annual growth rate projected by the Energy Department's Energy Information Administration in EIA's 2008 Annual Energy Outlook down to 0.83 percent, slowing the rate of increase by 22 percent, EPRI said in a statement accompanying the January 14 report.

The potential energy savings in 2030 would be 236 billion kilowatt-hours, equivalent to 14 times the annual electricity consumption of New York City, EPRI said.

The analysis—entitled *Assessment of Achievable Savings Potential from Energy Efficiency and Demand Response in the U.S.*—found that under ideal circumstances, the consumption growth rate could be further reduced to as low as 0.68 percent annually by 2030, a reduction of 36 percent. However, achieving this more difficult goal would require costly investments as well as significant political and regulatory support, EPRI said.

The analysis comes at a time when utilities, regulators, and policymakers are urgently seeking ways to meet growing electricity demand while reducing the nation's carbon footprint. The key challenge, EPRI said, is to maximize potential gains in energy efficiency while ensuring adequate new electric generation to maintain reliability and meet future demand.

The report defines a realistic achievable figure that includes a forecast of

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'Small' Thaw In Exelon-NRG Standoff?

Top officials of Exelon Corp. and NRG Energy Inc. met Monday to discuss Exelon's hostile takeover bid for the merchant generator, with both sides indicating no progress had been made on a deal--although Exelon said it might be willing to make a "small" increase in its offer if it could get a close look at NRG's books.

While NRG suggested Exelon would not be willing to raise its offer sufficiently to interest NRG, the discussion clearly suggested a thaw of some sort in previously frosty relations between top officials at the two companies.

Filings by NRG and Exelon with the Securities and Exchange Commission Tuesday further indicated that NRG executives may be feeling some heat from their shareholders to give more consideration to a buy-out—either by Exelon or some other unspecified companies that were said to be interested in NRG.

The NRG filing said that David Crane, president and chief executive officer of NRG, told Exelon Chairman and CEO John Rowe at the meeting that NRG was "currently engaged in market discovery to determine the greatest value option available for NRG stockholders."

And Exelon in its filing said NRG's market discovery effort was focused on "options for NRG as a result of interest expressed by other companies."

Both companies also agreed that during the meeting Rowe raised the prospect of increasing his company's bid if Exelon was allowed to conduct a "due diligence" review of NRG's books.

However, NRG threw cold water on the notion that Exelon would offer enough extra to make a difference. "Mr. Crane expressed his view that due diligence would not move the price very much and was not willing to allow Exelon to engage in due diligence," the NRG filing said. "Mr. Rowe agreed that a price movement, if any, as a result of due diligence would be small."

Exelon, not surprisingly, had a somewhat more optimistic take, saying Crane "stated that at some point NRG might be willing to allow Exelon to conduct due diligence as part of this broader process…. Rowe also indicated that Exelon might be able to raise its price by a small amount, but that it would not be able to make a price increase more than once."

Exelon concluded by saying it would continue to seek "constructive dialogue" with NRG on the buy-out and with NRG saying Rowe ended the meeting by vowing to continue Exelon's hostile takeover effort through a proxy fight at NRG's upcoming annual shareholder meeting.

Efficiency Can Cut Demand Growth By 22 Percent... (Cont. from p. 1)

likely customer behavior, taking into account existing market, societal and attitudinal barriers as well as regulatory and program funding barriers. The barriers could reflect customers' resistance to doing more than the minimum required or a rejection of the attributes of the efficient technology.

A maximum achievable figure assumes a scenario of perfect customer awareness of utility- or agency-administered programs and effective, fully funded program execution, EPRI said. The maximum achievable number includes the effect of customer rejection of efficiency technologies.

For its baseline assumptions, the EPRI study relied on EIA projections of growth in electricity consumption and peak demand for the residential, commercial and industrial sectors from its 2008 Annual Energy Outlook.

"This study is well suited to inform utilities, policymakers, regulators, and other stakeholder groups," said Arshad Mansoor, vice president of power delivery and utilization for EPRI. "Estimates of energy efficiency potential affect forecasts of electricity demand, and electric utilities must make prudent investments in generation, transmission, and distribution infrastructure to reliably and cost-effectively address this demand."

Faced with the challenges of managing energy resources wisely, maintaining low-cost reliable power service, and reducing carbon emissions, utilities and policy makers are eyeing efficiency as a means to achieve these objectives. Many states have established, or are considering, legislation to mandate energy efficiency savings levels.

Among all the energy technologies reviewed in the analysis, improvements in commercial lighting have the greatest realistic potential for efficiency gains, with EPRI estimating that commercial lighting upgrades could trim annual consumption by roughly 90 terawatt-hours by 2030.

The next largest potential gain could come in efficiency improvements in commercial machine drives, followed closely by residential electronics, where the application of cost-effective energy efficiency gains have the potential to save 45 terawatt-hours and 50 terawatt-hours per year, respectively, by 2030.

The report found that the South, which has the highest per capita energy consumption and where demand is expected to grow annually by 1.4 percent through 2030, has the greatest potential for energy savings in absolute terms. The report sees the biggest potential gain by far in the South as coming from efficiency improvement in commercial lighting, followed by residential electronics.

In the North, where consumption is lowest in the nation, potential gains are seen in commercial lighting, cooling and other commercial efficiency improvements, residential electronics and industrial machine drives.

The West, which has the highest forecast growth rate at 1.6 percent per year, also has room for ample improvement in commercial lighting, the report said, adding that the West holds the largest potential improvement in percentage terms.

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Post To Step Down At Pinnacle West Capital

Pinnacle West Capital Corp. announced Wednesday Chairman and Chief Executive Officer Bill Post will retire effective April 30 after 38 years with the Arizona-based company, the corporate parent of Arizona Public Service.

Replacing Post, who will remain a member of the board, is Don Brandt, current president of Pinnacle and president and CEO of Arizona Public Service (APS), the state's largest investor-owned utility. Brandt was appointed as new chairman of the board and CEO of Pinnacle effective April 30.

Brandt will continue to serve as president of Pinnacle and CEO of APS, while Don Robinson, the company's current senior vice president of planning and administration, will become the president and chief operating officer of APS.

Prior to joining APS in 2002, Brandt was senior vice president and chief financial officer at Ameren Corp., the St. Louis-based energy services company. After being named chief financial officer of Pinnacle West and APS, Brandt was promoted to APS president in 2007. In March, he added the titles of APS CEO and Pinnacle president and COO.

Executive Vice President and Chief Nuclear Officer Randy Edington will continue to report to Brandt, while all other operational areas will report to Robinson.

Robinson, who joined APS in 1978, has as senior vice president of planning and administration played a key role in mapping out APS' future energy resource plans. He also had responsibility for the oversight of risk management, budgeting and forecasting.

Pinnacle West, headquartered in Phoenix, has consolidated assets of about $11.5 billion. APS serves more than a million customers in 11 of Arizona's 15 counties, and is the operator and co-owner of the Palo Verde nuclear plant—a major source of electricity for the Southwest.

Wellinghoff Demurs As FERC Backs LNG Project... *(Cont. from p. 1)*

by the courts.

In comments to reporters following the commission's monthly open meeting Thursday, FERC Chairman Joseph Kelliher conceded the decision would not be popular, but said "it is supported by a very extensive record" and "heavily conditioned," including 169 safety and environmental mitigation measures that AES and Mid-Atlantic Express LLC—the builder of the pipeline—will have to comply with before commencing construction.

FERC included all mitigation conditions recommended by FERC staff in their review of the project, which concluded the facility would have mostly limited adverse environmental impact.

The project, which is to include an import terminal for unloading tankers, three huge storage tanks and send-out capacity of 1.5 billion cubic feet per day, is projected to increase commercial marine traffic in the Chesapeake Bay by 5 to 7 percent.

Mid-Atlantic Express' natural gas pipeline, which would interconnect AES' LNG terminal with three existing interstate pipelines, would be located in Baltimore, Harford and Cecil counties in Maryland and also extend some 40 miles into Pennsylvania.

Wellinghoff—considered by many to be a leading candidate to chair the commission under President Barack Obama—said he voted against the project because he believed domestic natural gas infrastructure and renewable and distributed energy resources would better serve the Mid-Atlantic region's energy needs. He also said environmental and community concerns "have not been fully and fairly evaluated."

In particular, he questioned the lack of a designated site for the huge pile of dredging material the project will generate. Noting similar concerns raised in recent filings by the Commerce Department's National Oceanic and Atmospheric Administration and the U.S. Army Corp. of Engineers, Wellinghoff said removal of the 3.7 million cubic yards of contaminated sediment would be unprecedented and take more than two years to complete.

Wellinghoff also questioned the economic viability of the terminal, saying AES to date has not indicated that it has an LNG supply source under contract and that "evidence also indicates that the United States remains the market of last resort for LNG supplies."

And he blasted FERC staff for not including in its final environmental impact statement (FEIS) for Sparrows Point any analysis of domestic natural gas and renewable energy alternatives, which he would be environmentally preferable to an LNG terminal. Wellinghoff said the FEIS failed to account for the "significant potential" of nearby shale gas basins—most notably the Marcellus Shale in western Pennsylvania and West Virginia—and Maryland and Pennsylvania's renewable portfolio standards requiring increased renewable energy use by utilities.

Kelliher said many of the concerns would be met by the mitigation requirements set by FERC. Among other measures, FERC said that:

- AES and Mid-Atlantic Express must develop with federal and state agencies an acceptable plan to protect wetlands and aquatic resources.
- AES must incorporate appropriate features and modifications, as specified by FERC staff, into the LNG facility's design to enhance safety.
- AES must develop and implement an emergency response plan that would include involvement by state and local agencies and municipalities, a cost-sharing plan and a vessel transit management plan that would meet the requirements of the commission, the Coast Guard, and other federal agencies.

In a related development, FERC Thursday issued an order upholding its September 18 order authorizing NorthernStar Natural Gas Inc.'s proposed Bradwood Landing project in Oregon. The commission denied rehearing requests contending it erred in approving the facility prior to state certification of the plant.

FERC "does not impact any substantive determinations that need to be made by states" under federal statues, said the commission in response.

Bradwood Landing, the first U.S. West Coast liquefied natural gas import terminal, is to be located on the Columbia River in Clatsop County near Astoria and includes a 36-mile pipeline to hook into the regional pipeline system.

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Rely On Regulation Until Carbon Pricing Is Feasible

COMMENTARY

BY HOFF STAUFFER

My old friend Dick Morgenstern had an excellent commentary in the December 22 edition of *The Energy Daily*, arguing that it is "essential" that the Obama administration announce an explicit plan for carbon pricing at the outset. I agree with Dick that it is essential, but I fear that it may not be feasible.

The near-term focus of the new administration and Congress must be the economy, and this focus will usurp the time and attention required to "engage Congress on the many intricacies of carbon pricing." Clearly, we should try, but we must recognize that we may not succeed soon enough or well enough, due to the enormous complexities and risks associated with carbon pricing.

Particularly in these economic times (which result from an over-reliance on market forces and inadequate regulation), the risks of adverse economic impacts from carbon pricing will be weighed very heavily in the political process, and the only way to mitigate these risks may be to water down the goals and effectiveness of carbon pricing too much. Hence, we need a contingency plan that can be implemented simultaneously.

A sound contingency plan is to rely on regulation until carbon pricing can be enacted. Fortunately, regulation is already being used or at least discussed in very important ways. We already have federal regulation on appliance efficiency, auto efficiency and biofuels. Each of these can and should be improved, but at least they already exist.

Renewable portfolio standards, much more energy efficient building codes, and removal of utility incentives to oppose end-use conservation and/or efficiency have already been adopted in some states and are being discussed in others. More progress is required, but at least the process has started. Deforestation has been addressed, apparently effectively, at the Climate Change Conference in Posnan, Poland. This is important progress.

But there has been no progress to date on new coal-fired power plants, which must be controlled if we are going to be able to meet any reasonable target concentration of carbon dioxide (CO_2) in the atmosphere. A new regulation can be enacted immediately that bans new coal-fired power plants that do not remove and store at least 90 percent of their potential CO_2 emissions.

Such a regulation would be totally consistent with any carbon-pricing approach that was subsequently adopted, just as the new source performance standards for sulfur dioxide for new coal-fired power plants was and is totally consistent with the acid rain cap-and-trade legislation. We do not need to wait for the technology to be "commercialized." Such regulation would stimulate the development of the required technologies; just as such regulations did for auto emissions, sulfur removal on coal, and auto efficiency.

Finally, by adopting such a regulation, the United States would provide needed leadership for the rest of the world, without a material risk of diminishing our international competitiveness.

It is essential that we move forward on both carbon pricing and regulation, understanding that regulation is an essential stopgap strategy until "reasonable compromises" on carbon pricing can be achieved.

—Hoff Stauffer is the managing director of the Wingaersheek Research Group, where he has been working primarily on global warming. He was the first director of economic analysis at the U.S. Environmental Protection Agency in the early 1970s and then served as a senior member of various consulting and research firms where he focused on public policy and corporate strategy related to energy and environmental issues.

Hill To Let DOE Cash Out Renewable Tax Credits...(Cont. from p. 1)

day. A spokeswoman for Bennett was not immediately available for comment.

The new aid for the renewable energy industry follows a campaign by wind and solar groups to persuade Congress to make the PTC and the ITC "refundable" to entice back investors to their projects. Refundability would enable holders of the credits to get cash back from the government reflecting the value of those credits when they submit their taxes.

However, while the Obama administration and congressional Democrats have trumpeted their desire to accelerate renewable energy development, key lawmakers and staff on the congressional tax-writing committees balked at refundability. Some Hill sources suggested lawmakers—stung by public anger over the Wall Street bailout—were opposed to making more cash infusions to the financial firms, which have traditionally been the biggest investors in renewable energy projects.

Sources said the new provisions being drawn up would effectively provide the equivalent of the refundability being sought by the wind and solar industries.

House Ways and Means Committee Chairman Charles Rangel (D-N.Y.) last week alluded to the new renewable provisions in a press release that referred to legislation that would allow investors in wind or solar projects to make a "temporary election to claim the investment tax credit in lieu of the production tax credit."

Under the legislation, those converting their PTC to an ITC could apply to DOE to get a cash grant equivalent to the value of their ITC, sources said.

Rangel said Ways and Means would provide the "coordination provisions" to dovetail with the DOE grant program, which he said was being developed by the House Energy and Commerce Committee, which oversees most DOE operations.

Denise Bode, head of the American Wind Energy Association, last week praised the cash-back mechanism as critical to her industry, saying in a statement Thursday that the new DOE grant program would "ensure that renewable tax credits have value."

Other provisions in the stimulus bill would provide renewable developers with a five-year carry-back of their operating losses; allow a leasing structure to help developers more easily monetize accelerated depreciation; and extend the PTC, which expires at the end of this year, for another three years.

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