

SPARK

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The on-line gateway for readers of Public Utilities Fortnightly magazine.



Between Spark and Fortnightly, there has been a lot of coverage of the elimination of PJM/MISO through-and-out rates and the substitution of the Seams Elimination Cost Adjustment (SECA) for lost revenue recovery purposes. In this issue, I attempt to pull together the latest information on this controversial subject. However, the SECA battle still goes on, although the lines now are drawn more clearly as recent orders issued by FERC in February make clear.

Also, a security expert at Symantec, Gary Sevounts, warns utilities that hackers with bad intentions are eyeing their communications networks via the ICCP protocol. Is your organization protected?

Note that NARUC president, Marilyn Showalter, whom I interviewed in last month's issue, is stepping down from that position in early March.

Lori A. Burkhart
Editor

TRANSMISSION PRICING

FERC Fixes Rate Pancaking, But at What Cost?

BY LORI A. BURKHART

Some utility companies and their big customers located in MISO and PJM are howling over the newly implemented "SECA," or Seams Elimination Cost Adjustment. But besides issues involving cost shifting and revenue losses, the SECA implementation docket raises questions involving allegations of windfalls and whether or not some of the "new PJM" companies can get along with the founding PJM members.

FERC had aimed for a larger RTO footprint by having the Midwest Independent Transmission System Operator (MISO) and the Pennsylvania-New Jersey-Maryland Interconnection (PJM) RTO join forces, in a sense. It sought to unify the transmission pricing structure across the two regions and in the process created the SECA—a temporary compensating true-up charge—for use across the two regions upon elimination of through-and-out (T&O) rates.

In order to eliminate multiple or "pancaked" T&O rate surcharges on transmission rates billed for electricity crossing service territory boundaries, the SECA was imposed by the Federal Energy Regulatory Commission (FERC). It is required by Order No. 2000 to eliminate T&O rates when applied to transactions sinking in an RTO (see *The Blame Game*, page 2). But the »

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problem is that T&O rate elimination leads to revenue losses that need to be recouped in hopefully a more fair way.

Revenue losses resulting from elimination of rate pancaking are intended to be solved by the SECA, which aims to prevent cost shifting between customers of RTOs. The SECA compensates exporting transmission owners by charging importing loads for their lost revenues. Lost revenues to be recovered by the SECA now are calculated based on historical usage, using a 2002 test period for year one and a 2003 test period for the second year of the two-year life of the SECA.

SECA History

The SECA had its origin in two FERC orders.

- One order aimed at eliminating the transmission seam directly between PJM and the MISO.
- The second eliminated the T&O rates of proposed RTO participants that arose from seams along boundaries between company service territories. In both orders, FERC allowed for the filing of a SECA transitional rate mechanism. *Re MISO, Inc., et al., 105 FERC ¶61,216 (2003), reh'g. pending; Ameren Services Co., et al., 105 FERC ¶61,216 (2003).*

Members of MISO and PJM had submitted to FERC so-called "Going Forward Principles" on March 5, 2004, setting forth how they believed the changes should proceed, which FERC approved. That move permitted the parties to delay elimination of the T&O rates on the premise that the parties would produce a replacement pricing structure that would eliminate seams

THE BLAME GAME

The birth of these cases comes from the choices made by the utility companies when deciding which RTO to join. Back then, FERC was not happy with some choices made.

[For more on the choice made by utility companies, see "Grid Battle is Joined," *Fortnightly*, Jan. 2004, p. 20, and "MISO-PJM Super Region: FERC Makes Companies Pay for RTO Choices," *Fortnightly*, Nov. 2003, p. 16.]

On Nov. 18, 2004, FERC issued an order approving a pricing structure to facilitate seamless trading of electricity between the MISO and PJM, effective Dec. 1, 2004. In that Nov. 18, 2004 order, it again notes Order No. 2000's requirement for RTOs to eliminate rate pancaking over a region of "appropriate scope and configuration."

"The genesis of this proceeding is after all, the choices of certain of the former Alliance Companies to join PJM, and the purpose of this proceeding is to mitigate the impacts of the RTO configuration that resulted from those choice," FERC says.

[For more on the economics of SECA v. T&O rates, see "T&O Rates: Premature End to A Good Thing?" *Fortnightly*, April 2004, p. 26. —L.A.B.]

on Dec. 1, 2004, without the need for any kind of transitional mechanism. At the same time, it was agreed that SECA compliance filings would be made as a backstop to ensure T&O rates would not be eliminated without either a long-term pricing solution or a transitional mechanism in place.

But then those in PJM/MISO charged with creating the pricing solution found themselves divided in two groups. They found themselves at an impasse, and so submitted to FERC two competing pricing proposals. But neither of the two pricing proposals fully met the requirements of those "Going Forward Principles." The result is that FERC chose between the two competing rate design proposals. (*For more on the competing proposals, see Box, page 6.*)

Rate Designs

On Nov. 18, 2004, FERC issued an order approving a pricing structure to facilitate seamless trading of electricity between the MISO and PJM, effective Dec. 1, 2004. That order conditionally accepts for use during an initial fixed period ending Jan. 31, 2006, the "Unified Plan Proponent's" regional zonal rate design, which is a "license-plate" rate design proposed by a majority of MISO and PJM transmission owners (FERC rejected the competing Regional Pricing Plan). The license-plate rate design will be subject to refund and re-evaluation after that transition period. (License-plate rates provide access to a regional transmission system at a single rate, although the rate may vary based on where the customer is located.) (*Cont. on p. 6*)

FORTNIGHTLY'S

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ICCP & UTILITY SECURITY

Beware of Hackers!

BY LORI A. BURKHART

Interconnections create the perfect opening for computer hackers, and they know it. Such is the premise of a new Symantec white paper, *Best Practices for Securing SCADA Networks and Systems in the Electric Power Industry*.

It points out that the demand for real-time information drives creation of more interconnections between utility control systems and public networks. And while such interconnections do provide benefits, without appropriate security measures they can compromise control system availability and cause service disruptions.

There is no getting around the need for communications. Utilities and other power system operators (RTOs/ISOs) deploy SCADA (supervisory control and data acquisition) systems to allow for central monitoring of large networks, so that an energy control center can collect electric system information from nodes placed throughout the systems. An average SCADA system holds 30,000 to 50,000 of such data collection and control points.

In order to allow interconnected utilities to speak with each other, the Inter-Control Center Communications Protocol (ICCP) most commonly is used. But Symantec warns that cyber-security was not the main consideration when SCADA systems and ICCP were developed. Instead, the main drivers were high levels of functionality, and in the case of ICCP, standardization.

The problem is that hackers know about these interconnections and are taking aim at them. For example, at a recent security watchdog meeting of the International Electrotechnical Commission Working Group 15 (known in

security circles as "Group 15"), the Idaho National Engineering and Environmental Laboratory disclosed that ICCP is of growing interest to hackers.

But while the industry is responding with new security initiatives and cybersecurity standards such as the North American Electric Reliability Council's (NERC) 1200 and 1300, existing security measures such as firewalls, according to Symantec, are not enough. That is because existing security solutions do not monitor and protect specific SCADA protocols such as ICCP. General information technology (IT) security products often are untested in control center environments, and so upon installation may have the unintended result of degrading performance and bringing down the electric systems

they are designed to protect.

The paper notes that in the past there was sufficient system protection. For example, proprietary protocols, applications and private networks shielded core distributed control systems, energy management systems (EMS) and SCADA systems.

At the Distributedtech conference held in January in San Diego, *Spark* discussed the ICCP weakness and how to fix it with Symantec's Gary Sevounts, the Director of Industry Solutions for Power, Energy and Utilities.

"It is very important not to shove products down throats," Sevounts advises. Instead, he says the security provider needs to go into the utility environment and take a look at the whole system. That is because untested security measures can bring delays via system degradation. "A lot of IT folks don't realize this," he says, explaining that a two-second delay (in IT due to new security measures) can lead to blackouts. "Therefore one can't blindly put IT security measures into a utility company's technology." »

The slide features the Symantec logo at the top left. The title "What is ICCP?" is centered in a blue header. Below the title is a list of bullet points:

- Purpose: Protocol for Inter-utility **Real-Time** Data Exchange within the electrical power industry.
- Monitor loads and transmission for **billing purposes**
- **Automatic Generator Control**
- **Remote Device Control**
- Substation monitoring and **automation**
- Goal: Interoperability

 To the right of the list, the text "Real-time 1-5 seconds Not minutes or hours" is displayed in a large, bold font. An arrow points from this text to the "Real-Time" portion of the first bullet point. At the bottom left, there is a small copyright notice: "© 2004 Symantec Corporation. All Rights Reserved."

More Communications

Now more than ever there exists increased communications and data exchanges among various power system operating entities, generators and other stakeholders. Such growth increased the number of access point needing securing. There also are more interconnections of corporate networks and power system control networks (see *Why Security Upgrades Are Needed*).

The white paper points to three primary drivers for more network interconnections:

- Demand for remote access computing has encouraged many utilities to establish connections that allow engineers to monitor and control the power system from the corporate network;
- Many utilities have added connections between corporate networks and control networks in order to allow corporate decision-makers to obtain instant access to critical data regarding operational system status; and
- Partner companies, regulators and financial exchanges often require real-time access to power system data, facilitated by linking the networks.

Symantec says another challenge the utility industry needs to overcome is lack of awareness among electric industry personnel concerning the significant number of cyber-attacks that have occurred (see *Recent Cyber Attacks*, page 5), potential vulnerabilities of SCADA systems and ICCP, as well as availability of solutions to mitigate such vulnerabilities.

Firewalls Are Not Enough

Firewalls are deployed by many utilities to control traffic entering and leaving their networks and act as a first line of defense. An added measure of security often is the firewall between corporate and control networks. But Symantec warns such firewalls can create a

false sense of security in that many simply allow or disallow certain types of traffic at each port. It cautions that companies need added security measures that recognize anomalies in Internet Protocol (IP) traffic caused by abnormal ICCP traffic.

An added problem is that often the network perimeter around what one thinks of a traditional utility company no longer is discernable. For example, control centers must allow communica-

tions with other control centers, generators, contractors and remote personnel. The result is that attacks can be unknowingly or even maliciously perpetrated by those with legitimate system access. Symantec cites a recent CSI/FBI survey stating that one-third of network attacks are perpetrated by individuals within a traditional firewall.

Also, traditional firewalls cannot protect against blended threats, defined as those combining characteristics »

WHY SECURITY UPGRADES ARE NEEDED

Symantec points out that FERC's open access transmission system mandates have increased the number and complexity of wholesale power transactions. At the same time, there is less construction of new generation facilities and transmission lines, coupled with increased electric demand, which indirectly led to operation of the power delivery system much closer to its limits. That inherently increases the sensitivity of the power system to cyber-security threats, because the potential impact of any security breach leading to equipment failure is magnified. Meanwhile, electric-load sensitivity has increased via microprocessor-based assembly lines and computer equipment, which are highly sensitive to momentary power disruptions.

Another regulatory development is the passage of the Sarbanes-Oxley Act of 2002. That Act requires companies to certify the effectiveness of their information technology and financial controls when they file certain financial reports. Without proper security practices, Symantec says that company officials cannot confidently sign off on such reports or controls. The Act also requires public disclosure in the event of revenue flow disruptions as a result of a cyber incident. Such event disclosures could reduce customer and investor confidence in IOUs, Symantec points out.

Also, in Aug. 2003, NERC adopted the Urgent Action Standard 1200 for Cyber Security, marking the first-ever standard aimed at protecting electric utilities' computers, software, and networks from cyber security incidents. It sets policies in 16 different areas designed to protect utilities from attacks. It was intended to be a temporary standard that would be replaced by the permanent Standard 1300, but it is extended through Aug. 13, 2005.

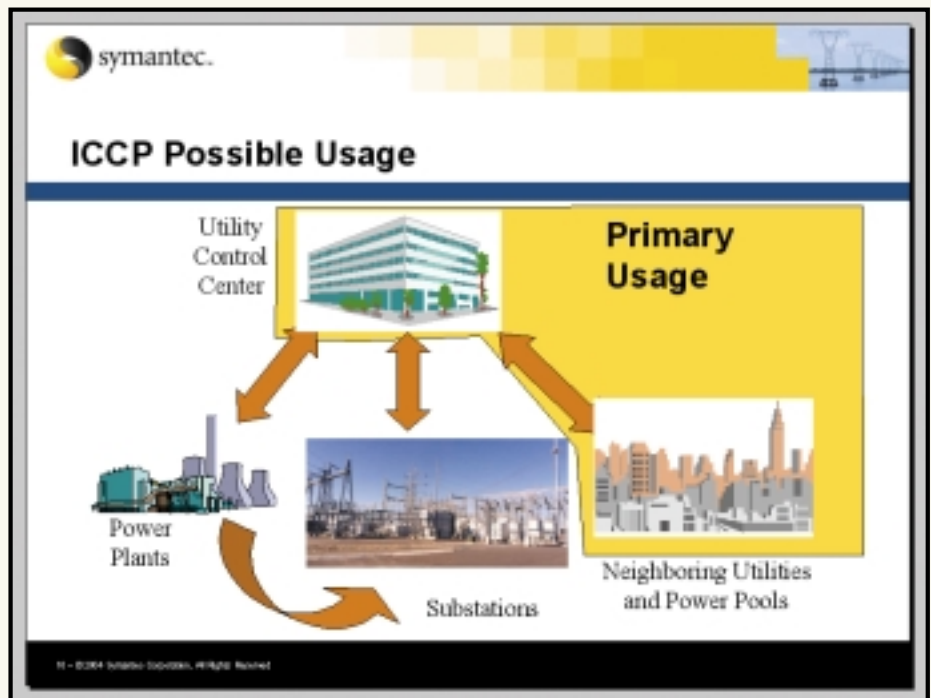
Symantec points out that to support utility competition, several standards for interconnection of SCADA systems and remote terminal units (RTUs) have been published, as have standards for communications between control centers and other entities (such as ICCP). Also, open standard SCADA systems have been developed to allow for more efficient dissemination of SCADA data across companies. That availability of information, however, further compromises utility security because protocols such as ICCP now allows for wider access to SCADA systems, meaning that SCADA system security may be only as strong as that of the utility's corporate network. —L.A.B.

of hacking, denial-of-service attacks, and worm propagation. A Symantec threat report from March 2004 warns that blended threats represented 54 percent of top ten submissions during the second half of 2003. In fact, traditional firewalls can become the launch point for an attack.

According to Sevounts: "There have been attacks on the ICCP protocol, which connects control centers at utilities to talk to each other." He explains that this occurs because the ICCP is secure, but the environment where it is deployed is not secure. He gives one example of why a firewall is not enough. For instance, when "a big utility is connected to a small utility" in order to allow power transfers. That allows hackers to access the system of the bigger utility through the smaller utility.

What Next?

Symantec recommends that in order to secure a system, that the first step is understanding and assessing the vul-



nerabilities of the SCADA network and systems on a recurring basis. Corporate networks, Web servers, and customer management systems should all be assessed to reveal unintended security gaps, including unknown links between public and private networks, and firewall configuration problems.

Symantec says that for control systems used by electric utilities and other power system operators, security policies must address issues of who is authorized to gain access to what information, who is authorized to perform what functions, and what procedures authorized parties must follow to ensure effective security.

Also, an early warning system is needed to gain insights into upcoming threats that could affect corporate networks and spread to SCADA systems. Utilities need a security solution at the network gateway that employs more than firewall technology. Network security is another vital component, which allows for intrusion detection via real-time analysis and correlation of traffic flowing across a network.

Symantec explains that because of the repetitive nature of traffic flowing over networks using ICCP, that protocol anomaly detection is feasible in utility control centers.

Remote and mobile users can pose great risk to utilities' systems and need their own set of security measures, as they may unknowingly introduce threats into the corporate network, and then into the interconnected control network. These users also serve as a potential conduit for hackers.

It is important to remember that cyber security is not a one-time event, but is an ongoing process that continually needs re-evaluation as regulations and technologies change. ■

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RECENT CYBER ATTACKS

According to a report by the U.S. General Accounting Office (GAO), there have been many attacks on electric power control systems. For example, a computer system at Salt River was breached in 1994. In 2001, a hacker attacked a network under development at an ISO. But one that really drew a lot of attention occurred when a worm known as "slammer" disabled a safety monitoring system for hours at Ohio's Davis-Besse nuclear plant in 2003. The slammer worm actually infiltrated the system via four different paths.

Re Critical Infrastructure Protection, Challenges and Efforts to Secure Control Systems, GAO-04-354, Mar. 2004.

Will SECA Work?

(Continued from p. 2)

In that same Nov. 18 order, FERC adopted its own interim SECA transition methodology, previously set forth in a Nov. 17, 2003 order, to become effective along side the Unified Plan's license plate rate design adopted for a two-year period from Dec. 1, 2004 (the date regional T&O rates are eliminated) through March 31, 2006, and directed that compliance filings be made to implement the SECA transition methodology.

License-plate rates previously were approved, and presently are being used for service in each RTO for fixed terms. Use of license-plate rates, with the transitional lost-revenue recovery mechanism, had been approved for MISO and PJM for fixed terms through Jan. 31, 2008 and May 31, 2005, respectively.

Abrupt cost shifts can occur upon elimination of rate pancaking and adoption of license-plate rates, FERC points out, and use of transition mechanisms, such as the SECA, to mitigate such costs shifts are appropriate.

For example, FERC has rejected proposals to adopt regional postage-stamp pricing for RTOs, as that rate design spreads the cost of transmission facilities throughout the region on a regional average basis, resulting in significant cost shifts from higher to lower cost regions. Conversely, pure license-plate rates, by allocating the costs of all transmission facilities locally, can result in abrupt cost shifts as the portion of the transmission revenue requirement previously recovered from through-and-out service customers under pancaked rates would then be borne by customers within the license plate pricing zone. But in making its rate design choice, FERC reasoned that its choice was balanced by the broader transmission access that became available under a regional tariff.

So when the two-year transition period ends, FERC will not require

COMPETING RATE DESIGN PROPOSALS

After holding settlement and stakeholder conferences on pricing structures to facilitate seamless trading of electricity between PJM and MISO, two major groups came up with competing proposals.

The Unified Plan Proponents (the plan chosen by FERC) included 77 percent of MISO and PJM transmission owners, 59 percent of the net plant investment in transmission infrastructure and 63 percent of the miles of transmission line in the combined region. They received 33 percent of the revenues for through-and-out service in the region for 2002. The Unified Plan is comprised of two parts: (1) the regional zonal rate design, which consists of the license-plate rate structure presently in place in PJM and MISO, and adjustments to the license-plate zonal rates of certain MISO transmission owners to account for the reduction in revenues for through-and-out transmission service reflected in those rates; and (2) an offer of settlement (subsequently this offer was rejected by FERC), on behalf of all unified plan proponents, that includes a moratorium on rate design changes through May 28, 2008, a requirement that protocols for allocating responsibility for certain new transmission facilities (*i.e.*, those that benefit in customers in both RTOs) be filed by April 1, 2005, to take effect June 1, 2005, and an offer of transitional payments to certain entities.

The Regional Pricing Plan Sponsors represented 23 percent of transmission owners in the two regions, 41 percent of net plant investment in transmission infrastructure and 37 percent of miles of transmission in the combined region. They received 67 percent of the revenues for through-and-out service in the regions in 2002. Their proposal, rejected by FERC, would have recovered two-thirds of each transmission owner's revenue requirements through license-plate rates, but restructures inter-RTO and intra-RTO rates in the regions so that the remaining third is recovered through a regional pricing mechanism. That mechanism reflects an allocation of a portion of the costs of certain high-voltage facilities through a regional average "postage-stamp" rate (the voltage-based element), and a portion of the costs of transmission facilities to net importing zones based on a system flow analysis (the usage-based element).

Under a license-plate rate design, the RTO's footprint is segregated into a number of transmission pricing zones, typically based on the boundaries of the individual transmission owners or groups of owners, and customers taking transmission service for delivery to load within the RTO pay a rate based on the embedded cost of the transmission facilities in the transmission pricing zone where the load is located. So customers serving load within the RTO pay for the embedded cost of the transmission facilities in the local transmission-pricing zone and receive reciprocal access to the entire regional grid.

Under a postage-stamp rate design, all customers taking transmission service for delivery to load within the RTO pay the same rate, reflecting the average embedded costs of the transmission facilities throughout the RTO. For more on PJM and MISO transmission pricing, see "Rivals Debate the Grid's Worth," *Fortnightly's Spark*, Oct. 2004, p.1.—L.A.B.

abandonment of license-plate rates, but will require the RTO and transmission owners to justify their choice either to

continue or discontinue license-plate rates, or otherwise change the method used for fixed-cost recovery. »

Loud Noises

But it appears SECA implementation is not without pain. The loudest protest over SECA may be from an Ohio manufacturing company, which also has the ear of both its U.S. Senators. Complaining is Ormet Corp. and its subsidiaries, Ormet Primary Aluminum Corp., which owns a large aluminum reduction facility located in Hannibal, Ohio, and Ormet Mills Products Corp., which owns a rolling mill adjacent to the reduction facility, and are in Chapter 11 bankruptcy.

Ormet told FERC that pursuant to filed SECA adjustments, Ormet Primary is to be charged almost \$1 million per month—including 26 percent of all SECA charges attributable to the American Electric Power (AEP) zone where it is located—even though Ormet's current load is less than one percent of the 2003 peak load in the AEP zone.

Ormet's first payment was due Jan. 20, 2005, and it argues that a change of such magnitude, coupled with market prices for electricity, will force it to close its reduction plant and may force Ormet Mills Products to close its rolling mill, resulting in loss of 1,900 jobs plus other disastrous economic ripple effects.

In agreement are both U.S. Senators from Ohio, George V. Voinovich and Mike DeWine, who together sent a letter to all four FERC commissioners commiserating with Ormet and asking FERC to "expeditiously review SECA charges throughout Ohio to ensure that they are being imposed equitably and with minimum economic disruption."

Perhaps the Senators' nudges worked. FERC on Jan. 14 issued an emergency interim rate relief order to Ormet, subject to refund or surcharge pending the final outcome of proceedings involving compliance filings to implement the SECA. FERC, however, stressed it would not address Ormet's SECA rate on an Ormet-specific basis. But due to potentially irreversible harm to Ormet upon implementation of

SECA TRAIN WRECK?

According to the PJM-MISO Regional Group's request for rehearing of SECA implementation, the working groups wrestled with the following problems, but never overcame them:

- How to calculate a zonal SECA rate;
- What constitutes lost RTOR revenues;
- Who lost the revenues;
- Who is responsible for paying the SECA;
- What was the source and what was the sink for transactions that transpired during the year;
- What transactions qualify for continued RTOR charges;
- How to honor requests by any load or load-serving entity (LSE) within a zone asking that SECAs be calculated on a sub-zonal basis;
- What RTOR payments were made in conjunction with transactions where the energy eventually sunk outside of the combined region and so should be removed from the SECA "hubbing" adjustment;
- What transactions occurred between affiliates;
- Who should be responsible for SECA collections from a load served by one LSE during the test period but who now takes service from another LSE;
- How to treat LSEs that are required to assess a SECA but have no mechanism to recover them in retail rates due to state-imposed rate freezes;
- Whether contracts that terminate during the SECA collection period pay a SECA or RTOR for the period's remainder; and
- Should there be an adjustment to lost revenues that may have been created by the decision of some shippers to discontinue firm capacity reservations and move energy on an interruptible basis even though they have firm energy contracts that necessitate the transmission.

Affidavit of David J. Scarpignato, Attachment A, Joint Protest on Compliance Filings of the PJM-MISO regional Group, filed Jan. 7, 2005, Docket Nos. ER05-6-000 et al., (FERC).

AEP's proposed compliance filing, for now, FERC will allow Ormet to pay the SECA rate applicable to AEP for service to its native load until Ormet's specific sub-zonal SECA is finalized (*see Re MISO et al., Docket Nos. ER05-6-012 et al., Jan. 14, 2005*).

Ormet in its emergency filing, asked FERC for relief either via: (1) elimination of sub-zones for collection of SECA within the AEP zone; (2) rejection of the SECA; or (3) allowing Ormet Primary to pay a smaller rate subject to refund or surcharge at the conclusion of the proceeding—for example, Ormet

suggested it could pay the same amount that AEP native load customers pay pursuant to the compliance filings.

Ormet pointed out it was the only AEP customer in its own sub-zone. "It is possible that, when this commission suggested that the future would echo the past as to imported load, it was considering the generality of imports to customers which resold to large numbers of end-use customers, such as utilities with retail load," Ormet argues. It adds that while AEP has separate sub-zones for municipal electric utilities, AEP retail customers, generation »

and transmission rural electric cooperatives, and retail choice customers, that while those customers may leave or cut load, Ormet is the only single-customer sub-zone and thus the only one affected by fluctuations in its own retail load.

Ormet produced numbers to back up its argument. It shows that for AEP's native load, a number of other industrial and municipal consumers will pay \$35.35 per megawatt-month (MW/Mo) for the inter-RTO SECA, and \$56.13/MW/Mo for the intra-PJM SECA. In contrast, Ormet will pay \$722.09/MW/Mo for the inter-RTO SECA and \$1,054.88/MW/Mo for the intra-PJM SECA, which is 20 times more than paid by AEP native load.

This inequity happened, according to Ormet, because of calculation of the SECA using the historic 2002 test year, when Ormet purchased 530 MW from non-AEP and non-grandfathered sources to cover load losses; it presently purchases 200 MW, all from within PJM. Also in 2002, Ormet purchased 320-MW sourced from Cinergy in 2002, when transmission rates from Cinergy were \$2.16 per kW/Mo; current Cinergy rates are \$1.15 per kW/Mo. The result, complains Ormet, is that it is being charged a SECA based on a fictitious 534-MW load, as well as upon transmission rates that no longer are in effect.

Ormet says under this method of calculation, it will be forced to pay over \$15 million per year (\$948,000 per month) in SECA charges from Dec. 1, 2004 through March 31, 2006.

Intra- vs. Inter-RTO Revenues

In an emergency request for clarification of the Nov. 18, 2004 SECA implementation order filed by new PJM members companies—AEP, Commonwealth Edison, Dayton Power and Light—and PJM on Nov. 23, they asked FERC to rule that it did not intend to limit the SECA methodology to the recovery of revenues associated with elimination of inter-RTO pancaking.

They requested that SECA rates for recovery of lost revenues among the pre-expansion and new PJM transmission owners (intra-RTO revenues) be included in the PJM SECA compliance filings to the Nov. 18 order, effective in the same two-year period of Dec. 1, 2004 through March 31, 2006.

In a strenuous objection to that request, certain PJM transmission owners (including Baltimore G&E, Jersey Central P&L, Metropolitan Edison, PEPCO, Pennsylvania Electric, PPL, Public Service E&G, Rockland Electric Co., UGI and Allegheny Power), took the opportunity to blast AEP, which owns a large amount of transmission lines and covers a lot of territory over which electricity moves.

They argued FERC consistently treated inter-and intra-RTO rate pancaking and transition costs issues separately. They found nothing that contemplates that PJM transmission owners were required to include AEP in the SECA FERC ordered when AEP had already joined PJM.

They also argued that AEP already was compensated for its lost revenues within PJM. "By its own admission, AEP has collected point-to-point through and out (RTOR) revenue at the rate of at least \$197 million per year as a result of its delay in joining PJM beyond the originally intended date of Feb. 1, 2003, and AEP will collect \$120 million more in SECAs under the Nov. 18, order," they charge. They add that FERC found that by joining PJM, AEP would receive over \$300 million of net benefits from energy sales. "On top of these benefits, there is the fact that AEP has joined a successfully up-and-running RTO, which was created by the uncompensated contributions of existing PJM members," they argue. They conclude that not only does AEP have no intra-PJM lost revenues, what AEP has is a "windfall," and ask FERC to "put an end to AEP's baseless efforts to extract even more money from customers in PJM." »

Next Month's **FORTNIGHTLY**

The March issue of *Fortnightly* magazine takes a hard look at the geo-political concerns surrounding our new reliance on liquefied natural gas (LNG) and what that means. Our editor-at-large, Michael Burr asks if it is worth the risk?

Our special supplement on metering gives new perspectives on the topic. You won't want to miss what industry veteran Mark Leach has to say about automated meter reading (AMR). Prepare to be surprised.

Here is more of what you will find:

► **Distributed Generation: Who Benefits?**

The first of three articles from the experts at Oak Ridge National Laboratory analyzing survey results and associated case studies into the motivation for installing DG systems, and perceived benefits.

SPECIAL METERING SUPPLEMENT

► **The Oracle of AMR: Interview with Howard A. Scott**

The author of The Scott Report on AMR Deployments provides insight into the progress of automatic meter reading and other top trends in utility automation.

► **Efficiency and Demand Response: Twins, Siblings, or Cousins?**

An extensive review of demand-response programs shows that the vast majorities of such programs not only reduce electricity use during times of peak load, but also yield a conservation effect.

► **Automatic Meter Reading: Debunking the Myths**

An executive decides to speak the truth about AMR, tossing out marketing jargon and busting some myths.

PLUS A New Standard to Predict Weather Demand

Explaining the BGS
Auction Enigma

Demand Response:
Yielding Conservation
Benefits

But FERC agreed with AEP, finding that lost revenues associated with the elimination of intra-RTO rate pancaking could be recovered through the SECA. It authorized AEP, Commonwealth Edison and Dayton P&L to file for recovery of lost intra-RTO revenues for Dec. 1, 2004 through March 31, 2006. *Re MISO, 109 FERC ¶ 61,243, Nov. 30, 2004 (FERC).*

Stay Tuned

On Feb. 7, MISO submitted to FERC a proposed compliance filing for SECA recovery due to Duquesne Light Co. having joined the PJM Interconnection on Jan. 1, 2005. It asked for recovery of MISO transmission owners' lost revenues associated with transactions sinking in Duquesne's territory. Previously, the PJM-MISO regional group—made up of some 35 members—on Jan. 7 filed a protest to compliance filings submitted to collect the SECAs. It asks FERC to reject the filings, arguing the implementation will shift hundreds of millions of dollars among customers throughout the combined PJM-MISO region “with virtually no support, or even the endorsement of the filing transmission owners (many of whom

But FERC agreed with AEP, finding that lost revenues associated with the elimination of intra-RTO rate pancaking could be recovered through the SECA.

are protesting their own filings).” They say none of the complex and contentious issues raised the first time around with regard to SECA compliance have been addressed, and concerning intra-RTO revenue, “the parties had no reason to believe the commission would disinter the almost universally opposed SECA concept.”

The group argues that the lost revenue claims are merely claims that have not been backed up and are based on North American Electric Reliability Council (NERC) tag data for 2002 that never have been entered into the record and subjected to scrutiny. They contend that all PJM-MISO Regional Group members generally support the joint protest, but certain members do not join in every argument. The protest contains a laundry list of potential SECA problems (see SECA Train Wreck? p.7).

FERC on Feb. 10 set the SECA compliance filings for hearing. It rejected the request by the PJM regional group that is deny AEP, ComEd and Dayton's Dec. 13 2004 compliance filing. FERC said it agrees with concerns raised by the PJM-MISO Regional Group, and asked the RTOs and transmission owners to provide supporting documentation containing calculations and data, including NERC e-tag data used, and “detailed narrative descriptions of all adjustments to data and calculations performed, to develop the proposed SECAs with the case-in-chief.” (*Re MISO et al., Docket Nos. ER05-6-001 et al., 110 FERC ¶ 61, 107, Feb.10, 2005.*) ■

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