Federal Energy Regulatory Commission
Docket No. RM01-12-000 November 19, 2002
SMD RESOURCE ADEQUACY TECHNICAL CONFERENCE

AMERICAN FOREST & PAPER ASSOCIATION

In addressing the issue of Resource Adequacy under the proposal for Standard Market Design (SMD), the FERC seeks to assure that sufficient electric power generation will be available to serve the projected need. The American Forest & Paper Association (AF&PA)[1] agrees with FERC that a standard resource adequacy plan should exist regionally, be designed in coordination with the appropriate state authorities and be subject to FERC approval on interstate or inter-regional matters.

Any Resource Adequacy measures finally adopted should be in a form that would allow them to be market-driven, aided only when necessary by regulatory intervention. Demand side measures should be encouraged and count equally towards any adequacy requirement. ITP rules should be designed or amended so that industrial cogeneration facilities whose power sales may be intermittent into wholesale markets, may supply wholesale power to the markets without undue burdens on industrial production processes with the requirements applicable to merchant power plants.

For decades, the paper and forest products industry (the "Industry") has self-provided the majority of its industrial energy needs. Many pulp and paper mills, for example, have run their paper production processes using electricity largely supplied by mill-operated, on-site electric generators. Regional Transmission Organizations (RTOs) have typically required that interconnected generating facilities – including on-site cogenerators – be under the control of the RTO, even if the generator is not making sales to the market, *i.e.*, is merely interconnected to the transmission grid.

Cogenerators that may have power available to sell into wholesale markets (either intermittently or constantly) should not be treated the same as merchant power plants. Additionally, some RTOs view all electricity *consumed* by a self-generating customer as having been delivered from the electrical transmission grid rather than recognizing that the cogenerator does not use the grid services in order to to consume the power generated by its own on-site generation facility. Because a cogenerator only provides excess or net volumes of electricity to the electricity market, to utilize the gross potential for interconnection, safety, and transmission studies could create a false estimate of capacity availability. A net capacity approach would eliminate potential planning irregularities.

Other differences between Small cogenerators like those operated by our members clearly are different than merchant power plants are highlighted below:

- A merchant power plant's primary function is to serve the power demands of the electrical transmission grid to which it is interconnected.

[1] AF&PA is the national trade association of the forest, paper and wood products industry. We represent member companies engaged in growing, harvesting and processing wood and wood fiber, manufacturing pulp, paper and paperboard products from both virgin and recycled fiber, and producing engineered and traditional wood products. AF&PA members include manufacturers of over 80 percent of the paper, wood and forest products produced in the United States.

- The primary function of cogeneration is to support the host facility by providing electric power and steam or other useful thermal energy for the manufacturing process.
- A cogenerator's power production process, unlike that of a merchant generator's, must operate in a highly integrated fashion with the cogenerator's industrial host. Accordingly, a cogenerator's entire power production capability should not be unilaterally "redispatched" (or redirected to other uses) by the RTO based on the needs of the electrical transmission grid, irrespective of the needs of the cogenerator's primary business.

FERC could enhance Resource Adequacy by requiring the ITP to enter 'provisional' long term reserve contracts that could be cancelled or suspended. This would allow reserve requirements to be set high enough to assure a ready supply of capacity available when needed. This could free this reserve capacity to serve the market. Using such 'provisional' contracts, the ITP could free this reserve capacity to serve the market based on pricing signals indicating a tight capacity market exists. The advantage to releasing reserve capacity to the market as a participant is that the market will adjust pricing expectations in accordance with the new supply/demand balance. The problem with just allowing the ITP to utilize the reserves to solve regional system balance problems is that the transaction is not always readily apparent to the market place so it has little to no impact on pricing. Generally, reserve transactions take place in the real time market instead of the day ahead or hour ahead markets where commodity pricing is established. Prices signal when a tight capacity market exists. Given that the ITP owns the right to the capacity, then the ITP could share in the financial benefits from the sale of the capacity in the market. This could have the effect of mitigating run-away pricing while creating a new revenue source for the ITP to be used to lower tariff services. The capacity could then be released on a temporary or permanent basis depending on market conditions. The market would therefore be independent until a shortage appeared and new capacity could mitigate the problem by being reclassified from reserve to market participant. A ready supply of new market participants would be created via the contracts for reserves should the market fail to create the needed supply.

The series of rules and penalties proposed by FERC to encourage LSEs to enter into forward contracts (thus provide a basis for new plant construction) is likely unworkable and too complicated. This is perhaps one aspect where competitive markets should be allowed to function. A possible middle-ground would be to allow modest ICAPs (Installed Capacity Products), and have FERC intervene when necessary, for example, to guard against market power abuse. States could continue to monitor reserves and perform some level of integrated resource planning, ordering (when necessary) the LSE's under its jurisdiction to cause any needed new facilities to be built under an RFP process or by the LSE as an integrated utility. It should be recognized however, that in the past, ICAPs charges have increased dramatically, and reasonable ICAPs should be based on costs.