



Leaders Lines

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NERC: Electric demand to outstrip supply twofold

Many regions, including the Midwest, could fall below target levels in the coming years

In the organization's first prognostication on future demand and transmission reliability as the U.S. Electric Reliability Organization, the North



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American Electric Reliability Corp. (NERC) has projected that demand for electricity in the United States will increase twice as fast as supply in the next 10 years.

The projection was included in the 2007 edition of NERC's annual reliability assessment.

The report, available in its entirety on the NERC Web site (www.nerc.com), serves as an "independent judgment on the reliability and adequacy of the bulk power system in North America for the next ten years," according to the report.

That judgment includes the warning that many regions of the country, including the Midwest, could fall below target reserve levels of capacity within the next couple years.

The report predicts peak demand in the United States to increase 17.7 percent (135,000 MW) over the next 10 years, while the firm or committed generation resources that will have to meet that demand are only predicted to grow by 8.4 percent (77,000 MW).

By including resources listed as either "tentative" or "uncommitted," the gap is narrowed by 123,000 MW, still leaving a 12,000 MW shortfall.

For the region encompassing Ohio, Pennsylvania and the rest of AMP-Ohio's footprint, NERC projects that resources will fall below target capacity margin levels required to meet summer peak by 2012 without factoring in "uncommitted" resources and will fall below demand by 2013 even with those resources included.

"We are at the stage where emergency situations are becoming more frequent," said NERC President and CEO Rick Sergel as part of the press release that accompanied the report.

"Though some improvements have been made, we are requiring our aging grid to bear more and more strain, and are operating the system at or near its

limits more often than ever before."

In 2006, the same report outlined four key findings, specifically targeting declining capacity, sluggish transmission

infrastructure construction, natural gas supply and delivery problems and the industry's rapidly aging workforce.

The 2007 edition of the report follows

up on those findings and states that much work is still needed to avoid large shortages in the next 10 years.

Specifically, in the past year, 2,000 miles of transmission have been added to the U.S. power system, representing only one percent growth for the system as a whole.

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increased on a national scale (improving by 2 percent), several individual regions became further constrained. Over the next ten years, transmission miles are projected to increase by 8.8 percent, failing to keep up with generation growth in most areas, according to NERC.

As the margin for error becomes smaller and smaller, the NERC report also expresses concern over the reliance on natural gas in many re-

gions (New England and California are specifically mentioned), a reliance that leaves energy markets in those regions particularly reliant on the steady supply of natural gas.

Any interruptions in that supply have the potential to profoundly impact reliability.

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Settlement approved to return \$7 million in SECA charges to AMP-Ohio communities

In late October, the Federal Energy Regulatory Commission (FERC) approved a settlement that will return some \$7 million in charges paid from



Marc S. Gerken, PE
President/CEO

late 2004 to early 2006 by AMP-Ohio member communities toward so-called seams elimination cost adjustment (SECA) charges.

Though the settlement between AMP-Ohio and transmission owners in AMP-Ohio's footprint was filed unopposed in October 2006, the FERC chose not to take action until October 2007.

One of the goals in encouraging the development of regional transmission operators such as the Midwest Independent Transmission System Operator (MISO) and the PJM Interconnection (PJM) by the FERC was to eliminate so-called rate "pancaking."

Pancaking refers to the layering of

costs as energy is transmitted through multiple systems with different associated transmission costs on its way from generator to point of delivery.

Because MISO and PJM are so intermingled in their service territory, the FERC proposed SECA charges as a way to ease the transition from separate rate systems with pancaked charges to a unified rate system without these pancaked charges. However, the SECA charges were incorrectly determined in some instances, leading AMP-Ohio member communities to pay them under protest.

Also at issue was the fact that though SECA charges were collected from December 1, 2004, through March 31, 2006, the rates were determined from a baseline of traffic derived from 2002 and 2003 data.

The settlement comes as a result of AMP-Ohio's successful efforts to prove the SECA charges to be overstated by transmission operators. A variety of

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Settlement approved to return...

mistakes were found with the charges. One such error involved the collection of SECA charges based on scheduled transmission service that was intended to move power out of the

MISO/PJM footprint and thus should not have been included in the “lost revenue” claims that were used to develop the SECA charges. Another improper claim for SECA

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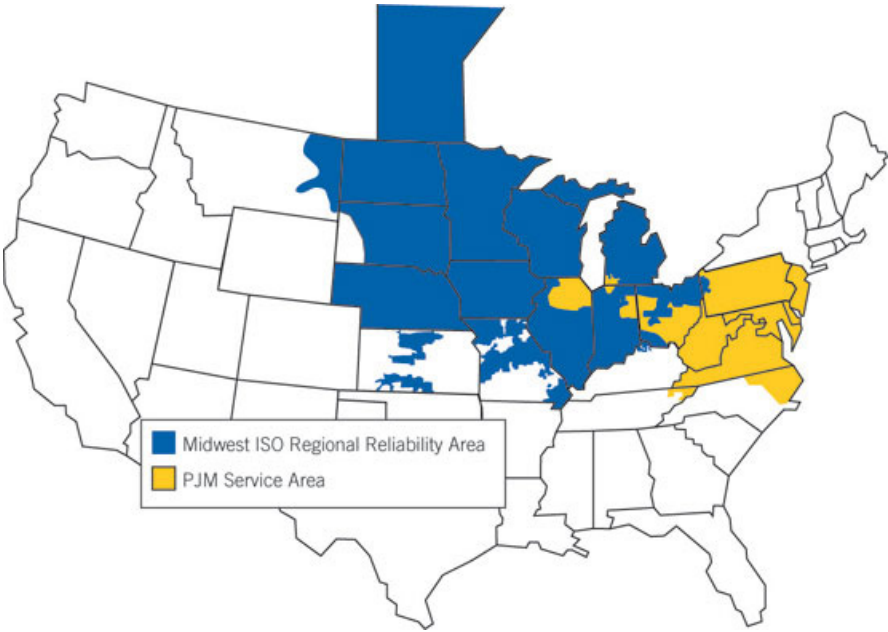
relief came from New York Power Authority hydropower transmitted to Ohio. The transmission was in fact fully paid for before any such “relief” measure and should not have been included in the first place.

Member communities can expect their respective refunds in 2008. Though the \$7 million settlement does comprise the bulk of the charges disputed by AMP-Ohio on behalf of its members, further transmission owners have not agreed to equivalent settlements and AMP-Ohio expects to see other refunds in the future.

“I want to thank the AMP-Ohio Board of Trustees for its guidance throughout this process,” AMP-Ohio President/CEO Marc Gerken said.

“I also want to thank our members for their efforts in bringing this to the attention of policy makers and for writing the letters sent to FERC. I also want to give special thanks to Chris Norton, manager of transmission affairs, and David Straus, our Washington legal counsel, for their work on this issue.”

PJM/MISO Territory Map



Electric demand to outstrip supply...

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With all of those issues already painting a bleak picture, according to the report, the industry must further brace for the loss of nearly 40 percent of senior electrical engineers and shift supervisors to retirement beginning in 2009.

Though an improvement over NERC’s forecast in 2006, the 2007 report states that more work is still needed to avoid widespread shortfalls.

Those potential solutions include improvements in the speed of siting transmission resources, increased education efforts for consumers on how new transmission benefits them, more support for university-level strategic research in power system design and the improved inclusion of wind, solar and nuclear resources in the national bulk power grid.

Why is this significant in terms of the AMPGS project? The impetus of the project is to provide an opportunity for AMP-Ohio member communities to reduce their reliance on the wholesale power market, a market that has become increasing volatile in recent years.

This projection from NERC demonstrates that this volatility is not going to change during the next ten years and

that the best way to ensure predictable, affordable wholesale power is to move

to assets that member communities would own and/or control.

Projected 2008 End User Energy Use By Source (Commercial)

Energy Use Source	Quadrillion BTUs	Percentage
Other Uses	1.48	32.1%
Lighting	1.14	24.7%
Non-PC Office Equipment	.50	10.8%
Space Cooling	.47	10.2%
PC Office Equipment	.25	5.5%
Refrigeration	.23	5.1%
Ventilation	.19	4.1%
Water Heating	.16	3.4%
Space Heating	.14	3.1%
Cooking	.04	0.8%

Source: Energy Information Administration



Founded in 1971, American Municipal Power-Ohio (AMP-Ohio) is the nonprofit wholesale power supplier and services provider to 123 municipal electric systems in Ohio (81), Michigan (7), Pennsylvania (27), West Virginia (2), Virginia (4) and Kentucky (1).

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Formed in 1962, the Ohio Municipal Electric Association (OMEA) is the legislative liaison to 81 Ohio community-owned-and-operated municipal electric systems. The OMEA also is the legislative liaison to AMP-Ohio.