Chicago Advanced Energy Stakeholders Group – Q3 2018

Opening Remarks of Stephen J. Humes

October 4, 2018

Welcome again to the Chicago office of Holland & Knight. I’m delighted to welcome you all to the Chicago Advanced Energy Series Breakfast Meeting. I’m an energy partner with the firm based in our New York City office. As in the past, my Chicago colleague, Barb Adams, is here with me to welcome you and join in the conversations.

For this quarterly event, H.G. Chissell and his team have done a great job assembling a diverse panel of thought leaders focused on Internet of Things, technology and innovation in energy. I know I’m looking forward to hearing from our discussion leaders and the ideas to be discussed as emerging technologies are applied in the NextGrid framework here in Chicagoland and regulatory frameworks evolve to accommodate state energy priorities. The competitive wholesale power markets like PJM are adjusting to figure out how to make room for these new energy innovations.

I recall that we were talking here a few years ago about the frequency regulation market creating opportunities for innovative technologies in PJM and making room for interesting battery storage projects and, having visited the Shedd Aquarium and its battery storage project again last night, it’s as good a time as any to put some of these developments in perspective. Of course, as we heard at Shedd, the battery storage project is still not active as a market participant due to a number of complexities innovative technologies face in the wholesale markets. The rules are still evolving and market leaders like Shedd find it difficult to stay ahead without getting too far ahead of the pack. It seems like Shedd is well positioned to move forward now.

With PJM’s frequency regulation market, which opened the door for Shedd and changed the market to create a new product, Reg D, for fast responding assets, there are now about 300 MW of batteries operating in PJM's frequency regulation market. There are also about 5,000 MW of pumped hydro storage in PJM, but energy storage is still not fully participating in PJM's energy, capacity or ancillary services markets. But as a result of a FERC Order in February called Order 841, in which FERC directed grid operators like PJM to draw up non-discriminatory market rules for energy storage participation in wholesale power markets, PJM has a new proposal out this week that would allow energy storage resources to set prices and participate in the real time energy markets and capacity market. So that’s an example of the market rules moving and creating potentially new opportunities and revenue streams for projects like Shedd.

Meanwhile, in other developments, PJM just this week submitted its compliance filing to revise its market rules to take into consideration state subsidized programs, like renewable energy solicitations or the nuclear zero emission credit program. This case is a big deal in the market and is way more complicated than we can discuss over breakfast, but it’s an example of the markets responding to regulatory pressure to make room for state energy innovations without destroying the markets.

Speaking of the nuclear ZEC programs adopted by both Illinois and New York, it’s worth mentioning that a few weeks ago the 7th Circuit Court of Appeals issued an important court decision upholding the right of states to provide subsidies or special support for programs even though they indirectly impact the competitive wholesale power markets. And just last Thursday, the 2nd Circuit Court of Appeals in New York City reached the same conclusion.

So the good news is that we see the federal appellate courts continue to respect the legal principle of cooperative federalism in energy regulation and public policy—there’s a role for both federal regulators and state regulators—and room for the states to pursue important regulatory policies, like the Future Energy Jobs Act and policy initiatives like Next Grid especially here in Chicago. So while the Federal Government may choose not to support renewables and clean energy objectives for now, states can support clean energy initiatives and energy innovations, and the wholesale markets like PJM need to find a way to accommodate state priorities along the way.

The bad news with the recent court decisions in Illinois and New York is that there are of course some unhappy participants in the markets, especially wholesale power generators operating on fossil fuels. These generators urge FERC to require the markets to balance the scales in light of state subsidies. That process is underway in PJM and may just be getting started in New York.

Technology and innovation is becoming incredibly important as strategies like solar plus storage aggregate many megawatts and seek to receive wholesale market revenues by bidding into the capacity market and energy markets and across state lines and with neighboring ISOs, like the Midcontinent ISO. The business opportunities for these technologies are increasing and accelerating. It’s very foreseeable that in the near future, as the Bronzeville Microgrid is assembled, that the operators are going to be thinking about bidding those resources into PJM as wholesale capacity and energy products that should be allowed to compete further with fossil generators. We’ll see how that plays out.

We are seeing this trend across the country and it is surely alive and well here in Chicago, as our dynamic group of speakers will help to engage us here this morning.

And so, without further ado, it is my pleasure to bring up HG to introduce our speakers and kick off our collaborations. Please enjoy the meeting and stay involved for future programs as our collaborations continue.

And now, H.G. Chissell will introduce our guests.