HAL QUINN
President & CEO

June 16, 2014

The Honorable Cheryl A. LaFleur
Acting Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Dear Chairman LaFleur:

You accurately characterized the state of the nation's electric grid this winter when you said it was "close to the edge." Commissioner Moeller's assessment that "the power grid is now already at the limit" is equally on point. There is little doubt that regulatory policies forcing the retirement of a significant portion of the nation's coal base load power capacity is the principal driver behind the precarious state of the nation's bulk power system.

At the Federal Energy Regulatory Commission's technical conference and a Senate Energy and Natural Resources Committee hearing on this subject, a common question emerged: how would have the grid performed and how high would have wholesale power prices risen if the coal base load power plants scheduled to close over the next two years not been available this past winter? The National Mining Association (NMA) commissioned Energy Ventures Analysis (EVA) to examine that question and I am providing you and your colleagues a copy of the study. The study also looks at the related question of the impacts of losing those generation assets during a warmer than forecasted summer.

With the additional 26,000 MW of coal base load capacity scheduled to close between 2014-2016, the impact upon system reliability, wholesale power prices and natural gas prices would have been substantially more severe this winter:

- **Reliability**: PJM would have experienced 34 hours in which the reserve margin would have been less than 5 percent. ISO-NE margins would have been negative for 16 hours in January 2014.

- **Wholesale Power Prices**: Although most of the impacts from the closure of additional coal base load capacity affect Eastern U.S. power markets, the resulting increases in natural gas demand and prices in turn increases wholesale power prices across all regions. PJM power prices would have been 55 percent higher and across the other markets prices would have increased between 27-47 percent.

- **Natural Gas Prices**: The additional cost to consumers for winter natural gas supplies would have been as much as $35 billion.

The additional coal base load generation retirements, combined with a warmer than normal summer, would produce similar reliability concerns and cost increases in the power and natural gas markets. All told, the cost to consumers for both power and natural gas would reach $100 billion if the nation experiences a winter similar to 2014 and an unusually warm summer.

If the Environmental Protection Agency's (EPA) 2012 power plant rules brought the electric grid "close to the edge," its carbon dioxide regulations announced June 2 will surely push it over the edge. EPA's proposal relies upon a complex web of assumptions for electricity demand, generation mix and capacity additions in 50 states. In short, every assumption will have to come to pass in every state to reach EPA's emission targets. EPA's recent experience in forecasting inspires little confidence. As you may recall, the agency predicted its power plant rules issued in 2012 would force the closure of 5,000 MW of generation capacity. The Department of Energy says the plant closures will reach 60,000 MW of capacity—more than 10 times the amount EPA predicted. There is therefore every reason to be highly skeptical of EPA's assessment about the impacts these carbon dioxide power plant regulations will have on the reliability and cost of the nation's electricity supply.

The reliability and cost of our electricity supply is not of paramount concern to EPA. Much like the 2012 power plant rules that have already pushed the grid to its limits, EPA downplays similar concerns in the latest proposal by suggesting again that Independent System Operators and Regional Transmission Organizations can help states design plans with reliability in mind after the fact. The more prudent course would be to structure a rule so it does not imperil the reliability and affordability of our electricity supply in the first instance.

EPA's deputy administrator was quoted recently as suggesting that the agency viewed this rule as an opportunity to remake the nation's electric grid. Whether such a prospect is either prudent or possible should be of primary interest to the Commission and within its purview under the Federal Power Act. Recent experience confirms the need for an independent assessment of EPA's proposal and its potential impacts on reliability, wholesale electricity prices and natural gas prices. We respectfully submit that the conduct of an independent evaluation by the Commission does not require an invitation from EPA.

Sincerely,

Hal Quinn
President & CEO

cc: Commissioner Phillip D. Moeller
Commissioner John R. Norris
Commissioner Tony Clark