

THE ENERGY DAILY

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AEP, NARUC Reach Deal On Boucher CCS Bill

BY CHRIS HOLLY

In a boost for bipartisan House legislation to create a dedicated stream of funding for carbon capture and storage research through a fee on fossil-fired retail electricity, utility and state utility commission officials said Monday they have hashed out a compromise that resolves regulator concerns about a provision in the measure that would preempt state authority to set retail power rates.

In an August 21 letter to House Energy and Air Quality Subcommittee Chairman Rick Boucher (D-Va.), the legislation's chief sponsor, North Carolina Utilities Commission member James Kerr and American Electric Power Co. Chairman, President and Chief Executive Officer Michael Morris said the compromise clears the way for the National Association of Regulatory Utility Commissioners (NARUC) to support the legislation (H.R. 3258).

Heartily endorsed by utilities, coal producers and the United Mineworkers of America (UMWA), Boucher's

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DOE Adopts New 'Graded' Terrorist Protection Policy

BY GEORGE LOBSENZ

The Energy Department has adopted a new "graded" security policy that appears designed to allow the agency to lower protection requirements for some sites storing weapons-usable nuclear materials if the threat posed by terrorist attack is judged less severe than previously thought.

The new policy, dubbed the Graded Security Protection (GSP) plan, was disclosed Monday by the Project on Government Oversight (POGO), a watchdog group that has repeatedly challenged the adequacy of DOE protection requirements for some sites holding plutonium and high-enriched uranium (HEU).

DOE's adoption of the GSP plan, which was confirmed by authoritative sources to *The Energy Daily*, replaces the department's "design basis threat" (DBT) program, according to POGO.

The DBT, put in place by DOE and other federal nuclear agencies following the September 2001 terrorist attacks on New York City and the Pentagon, generally outlines the size and nature of ter-

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Divided FERC Backs Higher Rates For Pepco Transmission Projects

Over protests from state regulators and municipal utilities in the region—and two of its commissioners—FERC Friday approved elevated "incentive" rates for transmission projects proposed by affiliates of Pepco Holdings Inc. in Maryland, New Jersey and Delaware, continuing a policy of approving higher profits for companies seeking to expand and bolster the nation's power grid.

In the 3-2 decision, the Federal Energy Regulatory Commission concluded that the projects are not "routine," will require significant capital investment

BY JEFF BEATTIE

and will reduce congestion on a regional scale.

As a result, FERC's majority said the projects qualify for enhanced return on equity (ROE) as allowed under the Energy Policy Act of 2005 (EPACT).

FERC approved Pepco's request for an additional 1.5 percent ROE on top of a base return of 11.3 percent that the commission already has approved for Pepco transmission projects built after 2006.

Pepco is proposing a wide variety of transmission work, including replacing existing substations and adding new

ones, rebuilding and replacing existing lines and adding new stretches of transmission lines, at a total projected cost of \$290 million.

The projects would strengthen the grids of Pepco's three utility subsidiaries: Pepco, which serves the Washington, D.C. area; Delmarva Power, serving Delaware and the Delmarva Peninsula; and Atlantic City Electric, which serves portions of New Jersey.

As an example of the projects' complicated nature and need for enhanced ROE, Pepco cited plans to replace a 230-kilovolt power line crossing the Delaware River that it co-owns with an Exelon Corp. subsidiary. That project

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rorist attacks that guard forces at DOE sites must show they can repel. For example, the DBT requires guard forces to demonstrate they can defeat a terrorist force of a particular size carrying specific types of weaponry, among other variables.

But after sharply raising protection requirements for several sites, DOE and Congress in recent years have recoiled at the tens of millions of dollars in additional expenditures needed to hire more guards and take other steps to meet the DBT.

Some DOE officials also have questioned analyses done by intelligence agencies on the likely terrorist threat to particular sites, suggesting the threat was overstated or poorly understood in some cases, resulting in overly stringent DBTs at some sites.

However, POGO and other critics of DOE security policy say the department's new GSP policy appears largely driven by the desire of DOE to save money on protection requirements.

POGO officials said that after DOE instituted a relatively weak 2003 DBT, the department sharply elevated protection requirements in a 2004 DBT, only to roll them back again in a 2005 DBT that some wags referred to as the "dollar-based threat" program.

POGO disclosed in October 2006 that the weakened 2005 DBT approved by Energy Secretary Samuel Bodman reduced the size of projected terrorist forces by 25 percent for all sites except the Pantex nuclear warhead assembly facility in Texas and operations of DOE's Office of Security Transportation, which transports nuclear warheads and weapons-usable materials.

Bodman ordered that all DOE sites meet the 2005 DBT by 2008, but in recent years DOE officials have questioned whether all sites could meet that deadline.

POGO said the new GSP policy appeared designed to justify further reductions in protection requirements for some DOE sites.

"While details of the GSP are classified, the Project On Government Oversight has learned from its sources that there will be some variations of security requirements from site to site and that some sites' security requirements will decrease," POGO said in its on-line blog.

"We understand that Pantex and the Office of Secure Transport, which produce and transport nuclear weapons, will still be complying with the highest security level, which is comparable to the 2004 DBT. We have also learned there will be a committee of experts who will analyze the security requirements needed at each site."

Pete Stockton, senior investigator for POGO, said while the GSP would maintain protection requirements for Pantex and other sites that handle nuclear warheads, the new GSP policy could allow weakened protection requirements for sites with stockpiles of HEU, even though that material can be quickly fashioned into improvised nuclear devices, or INDs, if captured by a terrorist attack force. Stockton said studies indicate INDs made of HEU can be detonated much more readily than warheads carrying sophisticated locking devices.

"One thing we don't understand is why different sites need different requirements if they are guarding the same thing: highly enriched uranium and plutonium," Danielle Brian, executive director of POGO, said in a statement.

DOE officials did not respond to requests for comment on POGO's assertions Monday.

Sources told *The Energy Daily* the new GSP policy is flowing in part from new intelligence analyses that better assess terrorist threats to particular DOE sites.

That comports with statements made by a top DOE security official to Congress in March questioning the validity of 2005 DBT.

In testimony before a House Armed Services Committee panel, Glenn Podonsky, head of DOE's Office of Health Safety and Security, said he was re-examining the 2005 DBT in light of concerns that some of its requirements might be based on outdated intelligence about terrorist threats to DOE sites.

Podonsky said the terrorist threat to DOE sites has changed since 2005 and the department must determine whether to make the significant expenditures required to bring some of its sites into compliance with the 2005 DBT.

"We are taking another hard look at the [2005] DBT," Podonsky told the strategic forces subcommittee of the House Armed Services Committee in March 12 testimony on DOE's fiscal year 2009 budget request. "It is based on intelligence data that is rather dated.

"We do need to re-examine where we are with the design basis threat. It [the terrorist threat] keeps changing."

In perhaps the most dramatic example of DOE sites falling short on security, guards at Lawrence Livermore National Laboratory earlier this year failed to defeat a mock terrorist force defined by the much weaker 2003 DBT, leading to expressions of concern by top DOE officials and members of Congress.

DOE previously had granted a waiver of the 2005 DBT requirements for Livermore, saying it was justified because the San Francisco Bay area lab was classified as a "non-enduring" DOE site, meaning the site eventually would be closed and therefore it would not be cost-effective to spend large amounts of money meeting the enhanced security requirements.

The National Nuclear Security Administration (NNSA), the semi-autonomous DOE agency that runs the department's nuclear weapons sites, also noted that it already had committed to removing plutonium and HEU from Livermore by 2012, meaning security upgrades are neither needed nor sensible.

POGO officials said a similar waiver of the 2005 DBT also has been granted for the Hanford site in eastern Washington, and that the department also has gone so far as to waive the 2003 DBT for the Y-12 site in Tennessee, even though it is the nation's primary storage site for HEU.

POGO officials said Y-12 cannot meet the 2005 DBT until the new Highly Enriched Uranium Materials Facility goes into operation, which is expected soon.

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