



Case & Project Experience

Expert Report on Proposed Environmental Protection Agency Rules Limiting Use of Diesel Engines for Emergency Electric System Response

Background

In June 2012, the US Environmental Protection Agency (EPA) proposed new rules regulating reciprocating internal combustion engines under the National Emission Standards for Hazardous Air Pollutants. These rules would, among other things, have limited diesel engines providing emergency electrical backup response to the electric grid to operate no more than 15 hours per year. This provision was immediately controversial—it would greatly limit the ability of demand responders (i.e., those willing to provide such backup capacity) since many electric markets require the engines to be available more than 15 hours a year before allowing them to sign up to provide backup service.

NERA's Role

In the comment period, EnerNOC, an aggregator of demand responders, engaged NERA to respond to a report prepared by Analysis Group, which argued that allowing these engines to provide demand response would greatly increase emissions by displacing clean resources at the margin. NERA Vice President Jonathan Falk wrote NERA's report.

The Result

On 14 January 2013, the EPA issued its final rulemaking, which increased its initially proposed limitation to 100 hours per year, allowing demand resources to participate in emergency

response and other peak shaving programs while still limiting their emissions. The NERA report disputing the methodology and assumptions employed by Analysis Group was cited both directly and indirectly in the rulemaking. Citing NERA's analysis, the rulemaking noted that “the EPA does not agree with the commenters that the final rule will encourage the use of backup generators in lieu of cleaner alternatives of energy.”

Expert Involved

Jonathan Falk, Vice President

In NERA's Global Energy, Environment, and Network Industries Practice, Mr. Falk has worked on a variety of issues involving the modeling of investment and industry structure. He has advised on the structure of market rules in both capacity and energy markets for various entities and has testified on those issues before numerous regulatory bodies. He has testified on the measurement, pricing, and environmental effects of demand response. Mr. Falk has been involved in the creation of novel insurance products to transfer price risk in electric markets. He has studied market power questions in emerging electricity markets and has estimated the social benefits of real-time pricing options for electricity, as well as questions of valuation and the financial risks associated with restructured electric markets. He has also advised on the structure of market rules and has created a number of models to value flexibility in utility planning.

About NERA

NERA Economic Consulting (www.nera.com) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. We bring academic rigor, objectivity, and real world industry experience to bear on issues arising from competition, regulation, public policy, strategy, finance, and litigation.

NERA's clients value our ability to apply and communicate state-of-the-art approaches clearly and convincingly, our commitment to deliver unbiased findings, and our reputation for quality and independence. Our clients rely on the integrity and skills of our unparalleled team of economists and other experts backed by the resources and reliability of one of the world's largest economic consultancies. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

Contact

Jonathan Falk

Vice President

+1 212 345 5315

jonathan.falk@nera.com