Energy Choice Matters

# FERC Denies AEP's Postage Stamp Rate Plan

FERC on Friday rejected a complaint from AEP to make PJM and the Midwest ISO use "postage stamp" rates to price transmission service between the RTOs (dockets: EL07-101-000, EL05-121-003 et al).

The RTOs, under their Independent RTO Pricing Design (IRPD), will keep their existing inter-RTO rate design that uses "license plate" rates to price service on the existing transmission system, which means the cost of existing transmission is recovered from customers in the zone where the facilities are located. Under a postage stamp rate, all transmission customers pay the same rate for grid assets, regardless of geography, as costs are spread evenly among customers.

"Existing transmission systems were built to serve native load, so license plate rates are appropriate in assigning those costs," FERC Chairman Joseph Kelliher said. The postage stamp approach is appropriate when transmission is built to serve a broader market, he added.

In its order, FERC noted the vast majority of transmission owners and state regulators in both RTOs supported keeping the existing license-plate rate design.

AEP had argued that customers outside of the AEP zone do not pay to use the AEP high-voltage system under the existing rate design, despite benefiting from it.

"AEP contends, however, that continuation of the license-plate rate design should be found unjust and unreasonable under FPA section 206 as applied to the entirety of the Midwest ISO and PJM systems because it is unfair to AEP," FERC found. Courts, FERC added, have stated "[t]here is no 'neutral' or inherently 'fair' allocation of fixed costs, as the history of rate design amply demonstrates."

Transmission owners built existing wires for the benefit of their own system and customers, FERC ruled. The wires weren't the result of central planning, and there wasn't any evidence showing third-party transmission usage played a role in planning AEP's existing wires.

Courts have held that rate design "is less a science than it is an art," the Commission added, noting that allocation of cost involves judgment on a number of facts.

Since RTO members voluntarily agree to share their wires, the Commission found no economic basis for finding that the owner of certain transmission assets should receive more of the benefit

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# PJM: RPM Adds Another 1,500 MW

PJM's fourth Reliability Pricing Model (RPM) auction saw the largest net increase in capacity since the auctions began, the RTO claimed Friday. The recent auction, for the planning year starting June 2010, added a net 1,500 MW of resources, PJM said.

Collectively, the four auctions are to add 10,000 MW to the system compared to what would have been available absent RPM, PJM reported. The Maryland PSC has said it would watch this auction and the upcoming May auction to determine whether it needs to mandate that utilities enter into new long-term contracts for supply.

Most of the PJM region had a clearing price of $174.29 per megawatt-day. In this auction, only the Delmarva Peninsula south of the Chesapeake and Delaware Canal was constrained, creating a clearing price of $186.12. For the previous delivery year of 2009-2010, clearing prices were $237.33 in the Baltimore-Washington area, $191.24 in the Mid- Atlantic region and $102.04 in the western portion of the PJM market area. Prices fell in the Baltimore-Washington and Mid-Atlantic areas while rising in the West due to capacity exports and load growth, PJM said.

## PUCT Staff Wants Finding that SWEPCO Plant Would Harm Choice

A Texas ALJ erred in finding that construction of SWEPCO's (AEP) proposed 600-MW Turk Plant would not unreasonably delay competition in the utility's service area, PUCT staff argued in exceptions to the ALJ's proposed decision (docket 33891). Although the ALJ ultimately proposed denying a CCN for the plant, the ALJ ruled the plant's construction wouldn't inhibit retail choice in SWEPCO. The PUCT staff wants that finding reversed.

The proposed ratebased plant would exacerbate barriers to retail choice in SWEPCO, according to staff's testimony. Competitive retail markets can't work without competitive wholesale markets, staff argued, and competitive generation cannot easily compete with ratebased generation because competitive developers must bear the risk of plant construction and operation, while those risks are shifted to utility customers under ratebased generation.

According to staff, the $1.3 billion plant is not needed to serve SWEPCO's retail load and would raise customers' base rates an estimated 33%.

## Industrials, Generators Spar Over Texas Nuke Fund

Texas Industrial Energy Consumers (TIEC) thinks a proposal by NRG Texas and Exelon Generation would inappropriately limit ratepayers' ability to participate in the proceedings to establish and review nuclear decommissioning trust funds (docket 34888).

The industrials think the generators' proposal which would permit interested parties to file comments but not provide an opportunity to petition for a hearing violates PURA and the Administrative Procedure Act.

TIEC alleged, "Exelon and NRG essentially want the Commission to fast-track the establishment of billions of dollars of potential liability of ratepayers, and the subsequent review of these funds, without providing ratepayers the ability to test the evidence upon which an application is based."

"If ratepayers will ultimately be responsible for funding any shortfall of a decommissioning fund," TIEC added, "they must be allowed to fully participate in the proceedings that establish and review the fund."

But NRG thinks an unqualified request for a hearing process as set out in the PUCT's original proposal isn't needed given the nature of the decommissioning fund requirements and the commission staff's active participation.

The proposed rule, NRG explained, sets out clear, non-discretionary requirements that must be satisfied and provides a mechanism for PUCT staff review to ensure that the requirements are met as a condition of maintaining a decommissioning fund.

NRG cautioned against a "substantial disruption of the administrative process with an endless parade of unfounded complaints brought solely to harass the nuclear operators," if a separate proposal from TIEC which would force review of trust balances solely based on a complaint filed by an interested party were adopted.

Several of TIEC's other objections to the funds weren't raised during the development of the proposed rule, NRG added, and are "contrary to the letter and intent of HB 1386," which provides for the creation of the funds.

## Prof. Questions ERCOT Island

A University of North Texas professor suggested that Texas consumers can no longer afford to keep ERCOT independent from the two other US interconnects, arguing that under deregulation Texans are paying more for power and "can't buy inexpensive water power from the Pacific Northwest when it's offered to the national grid" in a Sunday commentary in the Fort Worth Star Telegram. "By participating in the national market, Texas' power generators could earn additional revenue during low-demand periods while Texas' businesses and households would have access to cheap excess power in other areas of the country during peak demand periods here," Bernard Weinstein, a professor of applied economics, claimed.

# Briefly:

**FIRST LOOK:**

**Universal Eyeing Illinois Electric Market**

Universal Energy affiliate UG & E Illinois filed Friday to become an Alternate Retail Electric Supplier in Illinois (08-0082). Universal, based in Canada, offers natural gas in British Columbia and both electricity and gas in Ontario. Its only foray into the US market so far has been natural gas offerings in Michigan, including marketing fixed-price products to mass market customers, often on five-year deals. Documents related to Universal's application are not yet available on the ICC's website which would indicate what customer classes it wants a license for.

**BGE Cost Adjustments Set**

Baltimore Gas & Electric filed its February – May 2008 energy cost adjustment and administrative cost adjustment for SOS with the Maryland PSC in case 8908. The rates can be viewed on BGE's website.

**Tara Complaints Withdrawn**

The final complainant against Tara Energy in PUCT docket 35049 has withdrawn its complaint against the REP. Originally 20 businesses, churches, synagogues, and community service organizations sought relief from disputed charges under fixed-price contracts but each has now settled with the REP and withdrawn their complaints from the PUCT.

**DC Energy Supports MISO Floor Change**

Financial power marketer DC Energy urged FERC (ER08-435) to approve a request by the Midwest ISO to lower the floor price of its day-ahead energy market from negative $30/MWh to negative $500/MWh. Lowering the offer floor would, DC Energy argued, allow for greater flexibility in offers submitted in the day-ahead market, allowing for greater price convergence with the Real-Time Market.

**Vestige of Illinois Reciprocity to Go**

The ICC has started to remove the final vestiges of reciprocity in the retail power market. Last summer P.A. 95-0130 repealed the reciprocity provision (Section 16-115(d)(5)) effective January 1, 2008. Currently, sections 451.20 and 451.730 of Title 83 of the state's administrative code make reference to the now defunct section and the rulemaking would strike those references.

**SPS Seeks Green**

Southwestern Public Service (Xcel Energy) is seeking proposals to meet new green power requirements in New Mexico. SPS will need to meet 10% of its New Mexico retail sales with renewables by 2011, about 435,000 mwh. SPS is seeking solar, geothermal and biomass power with proposals due May 5. Contracts entered into will be subject to the Reasonable Cost Threshold, which ensures that renewable energy technologies will not unduly raise customers' rates. Contracts may be subject to approval by the New Mexico Public Regulatory Commission.

**Calpine Clear**

Calpine emerged from bankruptcy late Thursday, ending two years of Chapter 11 protection. Calpine's stock is expected to begin "regular way" trading on the New York Stock Exchange this week under symbol CPN. Calpine shed almost 1,100 workers during bankruptcy and winnowed nearly a dozen plants from merchant fleet. The IPP now estimates its worth at just under $19 billion.

**Iberdrola Hearings Set**

The NY PSC has set for Feb. 25 hearings in Iberdrola's acquisition of Energy East (07-M-0906) to permit cross examination of prefiled testimony. The PSC is conducting public statement hearings across the Energy East service territories during the prior week as well.

## Merchants and Utilities File Conn. Peaking Plans

Connecticut Light & Power proposed Friday building two peakers in Waterbury and Lebanon in response to the Dept. of Public Utility Control's solicitation for up to 500 MW. A state law passed last year allows utilities to re-enter the generation business to compete to build the peaking resources. CL&P filed plans for a 200 MW diesel-fuel plant in Lebanon that would cost $200-250 million and proposed a smaller natural gas-fired peaker in Waterbury. United Illuminating and NRG Energy filed proposals as well under their GenConn venture. LS Power and Dynegy submitted a proposal for a 350 MW plant in Bridgeport while Calgary-based Maxim Power proposed two plants and Hartford-based FirstLight Power Resources responded to the RFP as well.

## PUCT Seeking New LIDA

The Texas PUC issued an RFP for a new administrator of the state's electric and telephone low income customer rate reduction program in docket 34987. The contract awardee will serve as Low-Income Discount Administrator (LIDA) for the programs which assist 390,000 electric customers. Among other duties, the administrator manages a database of eligible customers and determines whether customers of individual REPs and telephone service providers qualify for the discount, handling over 16 million records per month. Interested parties must attend a Feb. 15 conference in Austin and submit proposals by March 14. Proposers must be neutral and impartial, must not advocate specific positions to the PUCT, and must not have a direct financial interest in the provision of electric or telephone service in Texas.

## NewEnergy Letter to Help Maine PUC in MBR Battle

Maine PUC Chairman Kurt Adams intends to ask FERC for a rehearing regarding its granting of market-based rate authority to Boralex Industries and is to provide new evidence showing the Northern Maine wholesale electric market suffers from market power. Northern Maine isn't in ISO New England and is connected to the Maritimes Control Area. FERC, in evaluating the market, failed to consider that most New Brunswick generation is owned by the province of New Brunswick and is not available at competitive prices, the PUC claims. The PUC now has a letter from Constellation NewEnergy in which the retailer outlines the difficulties supplying Northern Maine customers. "Ostensibly, a potential supplier can access three avenues to bring power into the northern Maine market, but because of this market's isolated nature the utility of these options is substantially limited," Constellation wrote. "This is a small, highly illiquid market with limited resources and concentrated generation ownership." Adams intends to forward NewEnergy's letter to FERC. The PUC wants FERC to make Boralex, which owns three wood-fired power plants in the region, charge traditional cost-of-service rates.

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created by the system (or bear less of the cost) just because the transmission element is a valuable asset.

FERC stressed that despite central dispatch, all customers do not have equal access to the transmission system, especially during peak periods. Constraints may prevent some customers from using certain parts of the transmission system, it noted.

FERC also found "extensive" cost shifting would result from AEP's proposal. Substantial cost shifts "pose a potential risk to RTO membership and the important benefits that RTOs bring," the Commission cautioned. The "substantial" cost shifts inherent in AEP's plan might prompt transmission owners to "second guess their continued or future participation in an RTO," FERC added.

Postage stamp rates are appropriate for new facilities, FERC explained, because such cost allocation provides incentives for construction and helps developers obtain financing. Reallocating costs for existing wires would not provide economic efficiencies or promote transmission investment, the Commission ruled.

# WPTF Warns Against Calif. ISO Option to Revert to Old Tariff

The Western Power Trading Forum wants FERC to reject a December request from the California ISO that would allow the ISO in certain extraordinary circumstance to revert to its previous tariff once the ISO's Market Redesign and Technology Upgrade (MRTU) takes effect.

WPTF argues that the ISO already has sufficient power under MTRU, "to deal with almost any conceivable circumstance," and added that a prior FERC order only required that the ISO develop a contingency plan, not a mandate to suspend "rules and processes that have been under development for many years."

WPFT thinks granting the ISO's request would put market participants at too high a risk. For example, WPTF cautioned, the ISO could revert to its old ancillary service markets if the ISO thought the clearing prices of ancillary services were too high, or the ISO could revert to a zonal market if it thought the LMPs were too high.

WPTF also objected to an ISO proposal to restrict access to operation procedures. The ISO wants to restrict access to some procedures due to, "security, market sensitivity, and proprietary concerns," but WPTF doesn't think that can be justified if procedures "have any bearing on the obligations of market participants or if they have any commercial impacts."

The procedures embody important details that are not found in the tariff, the Business Process Manuals or the User Guides, WPTF reminded, and limiting access to a certain type of stakeholder (such as transmission owners) could unjustly enrich a specific group with commercial information and advantages.