Energy Choice Matters

Universal Could Become Fifth Residential Electric Supplier for Illinois

CONTINUING COVERAGE

Universal Energy through affiliate Universal Gas & Electric Illinois could become the fifth Alternate Retail Electric Supplier licensed by the ICC to serve residential customers. Energy Choice Matters first reported Universal's intent to become an ARES Monday, but documents now available at the ICC reveal the Canadian retailer has asked for authority to serve residential customers in all areas of Illinois, in addition to commercial and industrial customers.

Furthermore, Universal is not only seeking an electric marketing license. It told the ICC it is seeking authority to be an alternate gas supplier, although the single application was titled "Illinois ARES Application." Although similar in nature, each license procedure falls under a different section of the Illinois Public Utilities Act (Section 16 for electric; Section 19 for gas).

In addition to its current mass market electric products in Ontario and gas offerings in Ontario, British Columbia and Michigan, Universal has been certified to market electricity in Texas to residential, commercial and industrial customers and has also gained eligibility in New York for the sale of natural gas and electricity to residential, small to mid-sized commercial and small industrial customers, the retailer told the ICC.

Universal does not intend to offer Illinois customers supplier-consolidated billing (known as single billing in Illinois).

Currently certified to serve residential customers in Illinois are Bluestar Energy Services, Commerce Energy, Hudson Energy Services and Integrys Energy Services.

ERCOT Market Keeps Attracting New Firms, Leaders

It's stories like these that make Texas the no-contest leader in retail power markets. The PUCT staff yesterday recommended approving the application of Houston-based startup Potentia Energy to be a Retail Electric Provider.

The ERCOT market has a host of home-grown and boutique REPs with diverse backgrounds and principals, and Potentia continues that tradition of entrepreneurship through competition.

CEO Anis Charania, a 30-year veteran of the business world, "currently manages a global empire of companies worth over 200 million dollars," Potentia told the PUCT. Charania owns Anis Tyre Corporation Pakistan, the sole distributor of Michelin tires for the entire country of Pakistan; TriStar Real Estate, a construction and real estate company in Dubai; and Gold & Gems Holding, a diamond jewelry import and distribution company serving 300 customers in the United States. Previous ventures included carpet export, plastic bottle manufacturing, and commercialization of the microbial agglomeration of coal dust into coal briquettes.

Potentia tapped ERCOT-market veteran James Reynolds to guide its entry into retail market. Reynolds, who will serve as a consultant, previously built a 10,000 account ERCOT book while general manager at ECONnergy and co-managed the startup of three REPs, focusing on marketing, supply and ISO interactions. Now he runs Power & Gas Consulting to train REPs in the detailed workings of the ERCOT market -- especially commercial, financial and pricing issues.

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DPUC to Rule on Pepco Energy Services Marketer Application by Mid-April

Connecticut with its commitment to retail choice continues to attract new entrants to compete for customers, joining Texas, New York and increasingly Illinois as examples where retailers are eager to bargain for customers' business – if regulators set up a working and fair market.

Although originally filed back in January, the DPUC has now officially acknowledged the request of Pepco Energy Services to get an electric supplier license, deeming the application complete and setting a deadline of April 14 for a final decision.

Pepco Energy Services asked to be certified to supply commercial, industrial and the all-important residential customer classes across the entire state. We'd love to call it another validation of the vision of the state's legislators and policymakers who committed to sensible programs such as utility purchase of receivables and utility marketer referrals to boost choices available to small customers.

But Pepco Energy Services is only seeking a residential license because its commercial and industrial customers occasionally want Pepco Energy Services to serve some residential accounts. Pepco Energy Services is keeping its focus on large commercial, industrial and institutional customers, it told the DPUC. It doesn't plan to actively market to residential customers.

For its first year of Connecticut operations, Pepco Energy Services expects to serve 75 commercial customers with load of 16 MW for 57,831 MWh and 25 industrial customers with load of 19.6 MW for 69,074 MWhs.

Another Maine Industrial Wants to Shop at Wholesale

Count Maine mallet and soft-faced hammer maker Garland Manufacturing Company among those customers who want to bypass the middle-man retailer and buy their power directly from NEPOOL.

Garland wants the Maine PUC to grant a competitive electricity provider (CEP) license to its affiliate Garland Power Co. for the sole and limited circumstance "of when a NEPOOL Market Participant End-User forms an affiliate for the purpose of buying power from the NEPOOL wholesale market and reselling such power to an affiliated NEPOOL Market Participant End-User," it told the PUC. Basically that means Garland wants to act as its own retailer and essentially buy direct from the power pool.

Garland is being helped by Freedom Logistics, which has worked with a number of big New England customers to facilitate their direct buying from NEPOOL.

Garland, located in Central Maine Power's territory, asked the PUC to waive disclosure of required financial statements "due to the sensitive nature" of the information. Garland, which also makes types of plastics, produces the pins used in the inimitable sport of candlepin bowling, found almost exclusively in New England and the Canadian Maritime provinces.

Munis Cool on SPP Performance as Entergy ICT

Lafayette Utilities System, the Louisiana Energy and Power Authority, and the Mississippi Delta Energy Agency (L-M Municipals) want FERC to hold a technical conference on the performance of the Southwest Power Pool (SPP) as Entergy's Independent Coordinator of Transmission (ICT).

The munis, while stressing they did not mean to attack FERC's policy of supporting ICTs or unfairly criticizing SPP's performance, aren't satisfied with the results so far, and argue that a cross-section of stakeholders feel the same way (docket ERO5-1065).

Munis pointed to errors in available flowgate capacity (AFC) calculation and data postings; erroneous denials of transmission service; disruption of transactions due to transmission curtailments; and operating and planning practices that impair competition and undercut reliability.

A stakeholder survey SPP conducted last year supports the need for a technical conference, the munis argued. The survey found:

- Only 6.9% of respondents judge the ICT's service better in terms of nondiscrimination than the service received prior to ICT implementation.
- Only 10.3% of respondents judge the ICT's service better in terms of transparency than the service received prior to ICT implementation.
- Nearly 28% of respondents feel that the ICT is doing a worse job at congestion management than Entergy did prior to ICT implementation. No respondents judged the ICT's performance to be better in this area than Entergy's.

The munis also excerpted quotes from the survey questioning SPP's independence and criticizing its reactive management and lack of leadership.

The bottom line, munis told FERC, is that there is less service available than prior to the ICT and there are more transmission loading reliefs (TLRs).

Munis attacked SPP's plan to curb TLRs through redispatch, temporary flowgates and other operational tweaks. Those strategies, munis claimed, are to be used as a last resort to preserve grid stability when all other options have been exhausted. Munis want Entergy to build more transmission to reduce TLRs, since munis consider the "root cause" of TLRs on Entergy's system to be insufficient transmission capability.

COMMENTARY: Continued Stream of Texas REP Applications Shows Resilience of Entrepreneurship

As far back as 2005, in anticipation of the upcoming expiration of the incumbent Price to Beat (then just over a year away from ending), we heard commentators pontificate about the inevitable consolidation of the ERCOT market, which boasts over 80 REPs including nearly 25 residential marketers.

We've never bought into the mantra that five or a few more big REPs are going to dominate ERCOT, especially the mass market. Customers are too diverse, too hard to win, and too disloyal to their current REPs for such dominance to gain strength.

Naturally some exits have occurred, mostly through acquisitions, some through distress, but more than a year after the clock stuck Jan. 1, 2007, we still haven't seen the feeding frenzy some were anticipating. We see several reasons.

First, most of the big national REPs with the fear-inspiring balance sheets don't want to play in the mass market. This simply means the REPs with the financial wherewithal to start buying up smaller players don't have an interest in doing so, because serving small customers doesn't fit their business model. This leaves the home-grown and boutique REPs a much-less contested market that they can leverage to grow and survive against the former affiliated REPs, since most of their other biggest competitors, out-of-state REPs that are backed by a parent company with incumbent utilities, merchant generation, or global energy exploration and production, don't see the ERCOT mass market as their wheelhouse.

Second, REPs have to be weary about any acquisition because customers on money-losing contracts aren't worth much if they can't be retained once those contracts end. The PUCT's recognition of the sanctity of existing contracts which are bought through merger or acquisition should make retailers take greater pause about buying that oh-so-attractive book of 25,000 accounts that's being peddled around the block. The easy grab-and-grow method to consolidation must be tempered, making boutique REPs less attractive fodder for the giants.

Third, because it may not make financial sense in most cases to buy customers in bulk from competitors, it means REPs have to win accounts the old-fashioned way: sales and value. The breadth and diversity of the mass market breeds a multitude of REPs catering to each customer's desires. Some customers may want a brand name and go with one of the old affiliated REPs, others may want a REP that offers an affinity program, or reward points, others may desire green power, still others want to buy from a local REP, etc. Even five large REPs trying to satisfy all these scenarios wouldn't cover everything, leaving the opportunity for small REPs first to nip at their heels, and then to start signing away large loads.

Then there are customers who simply want the lowest price, and REPs and their entrepreneurial leaders will come up with an unimaginable number of different ways to drive competitive advantage and lower prices. The result? REPs that survive because they have the lowest acquisition costs. REPs that survive because they have the lowest back office costs. REPs that survive because they have the broadest indirect sales reach. Becoming a market leader in one of those areas is hard enough; we don't expect a few big REPs to claim victories in all of them.

Fourth, the Commission and ERCOT's requirements allow new entries to replace any exits. For every Accent acquiring Dynowatt there's a new entrant from another market (see IDT Energy, Universal Energy), or a new home-grown venture such as Potentia (above) ready to take up the fight. Although we doubt REPs would call the licensing requirements (especially ongoing credit obligations) perfect, the sheer volume of REPs, especially independent startups, show the PUCT has constructed a certification process that does not inhibit robust entry. As long as business leaders with ideas and visions to get better products to customers believe they can lure new accounts with their superior brand (as the sustained stream of new applications shows), an oligopoly in the ERCOT retail market is a far-off proposition.

Briefly:

Fortis Keeps Texas Focus

Fortis yesterday continued its focus on Texas power trading and development since buying Cinergy's old desk from Duke. Two Fortis affiliates worked together to sign a 29-bcf, 10-year financial fixed price gas agreement with the 150-MW Sherbino I Wind Farm, a joint venture between NRG Energy and BP Energy (ECM, 2/5). Fortis Energy Marketing and Trading provided a fixed gas hedge based on forward notional heat rates, designed to accommodate wind intermittency risk. The hedge provides Sherbino with revenue stability and was developed in concert with Fortis Merchant Banking which led the $280 million senior secured financing. The "creative structure" of the hedge reaffirms Fortis' commitment to providing the energy industry with an efficient single source for its commodity and financing needs, said David Duran, Managing Director of Origination and Marketing at Fortis.

Quicker Refunds for PJM Members

PJM has proposed giving members earlier refunds from operating efficiencies and cost reductions that occur throughout the year. It asked FERC to OK disbursing refunds to members quarterly instead of annually. The actions stems from PJM's "stated rate plan" from 2006 which created fixed rates to replace the old formula rates which varied monthly.

Calif. PUC Wants Comments on SDG&E Rate Transfer

The California PUC wants additional comments as to whether San Diego Gas & Electric can switch its Schedule DR residential customers to the residential time-of-use schedule (Schedule DR-TOU) that was in effect when direct access suspension law AB IX took effect, once advanced metering infrastructure (AMI) meters are installed for residential customers. The PUC wants to know if stakeholders think AB IX or other statutes prevent the PUC from ordering the transfer. Such a switch would affect the residential customer's utility distribution costs contained in Schedule DR, as compared to Schedule DR-TOU, and, more important to competitive retailers should direct access return, the customer's electric energy commodity cost under Schedule EECC (Electric Energy Commodity Cost).

Ohms Refund Planned OKd

The Maryland PSC approved a settlement among Ohms Energy, Baltimore Gas & Electric, PSC staff and the Office of People's Counsel that establishes how former Ohms customers are to get refunds stemming from Ohms billing errors.

In August, Ohms was forced to exit the retail market temporarily due to a credit call from PJM, sending its customers back to SOS. The settlement resolves any erroneous duplicate billings during the transition and ensures that customers getting refunds aren't still considered past due by BGE, which had been collecting Ohms receivables under consolidated billing.

If a customer is owed a refund, Ohms will first pay BGE directly for any past due amounts that the customer may have erroneously been assigned. BGE will apply a corresponding credit to the customer's bill, sending them a notice that their past due balance has been paid. To the extent refunds exceed past due amounts, Ohms will send the remaining money directly to former customers instead of remitting payments through BGE. The Order is No. 81833 in 9118.

Potentia Energy *.... From 1*

COO Amir Ali Boghani is a telecom veteran who previously was president of Prime Wireless, which was designated a "master dealer" of Verizon Wireless with 23 locations in several states.

Potentia has also contracted with Competitive Assets for consulting.

The REP plans to apply to become a Level 2 QSE in ERCOT and is negotiating a contract with a QSE services provider with experienced staff to provide energy management services to Potentia's QSE.

Recognizing the breadth of bill payment options already routine in ERCOT, Potentia plans to offer Internet payments, payment by check, credit cards, or debit through the mail or by phone, and cash paid to authorized payment agents.

Potentia has selected and is finalizing necessary agreements with EC Infosystems to run EDI transactions, provide invoicing and perform other backoffice operations.

Potentia is looking to hire managers for wholesale supply, load scheduling and forecasting, regulatory affairs, legal matters, marketing and EDI transactions (docket 35199).