Energy Choice Matters

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Hess Joins Parade of Retailers Expanding Demand Response Products

Another of the nation's top C&I electricity retailers is boosting its line-up of demand response products, one of the hottest areas of value-added services.

This time it's Hess Energy Marketing, which launched its demand response program after a pilot last year. Hess is targeting ISO New England, New York ISO and eastern PJM.

Yesterday Suez Energy Resources NA rolled out partnerships with EnergyConnect and Enerwise (Matters, 2/13/08). Hess will be doing everything in-house.

We couldn't connect with a senior-level figure at Hess yesterday but will bring you more insight tomorrow.

Hess's demand response program includes energy audits, installation of metering equipment and access to an online energy monitoring system branded as the Hess PowerPort platform.

Most of the top C&I marketers have long-offered load management, shaping, or reduction solutions on a customized basis, but are increasingly finding customer demand for off-the-shelf products.

Demand response is becoming what "risk management" products were in late 2005 and early 2006 – if you're selling to a large C&I and don't have one, you're in trouble.

Increasingly, C&Is are demanding, and expecting, retailers propose demand response solutions in their initial contacts with sales managers, whereas a year or two ago, retailers would have to pitch customers on demand response as a value-added product they hadn't yet considered.

Va. Regulators Tell FERC to Hold the Line on RPM CONE

Not surprisingly, the Virginia State Corporation Commission staff is protesting PJM's proposed new Cost of New Entry (CONE) data for the RTO's Reliability Pricing Model capacity market.

PJM has submitted new CONEs (FERC docket ER08-516) to reflect recently increased construction costs, since the previous CONEs were developed as early as September 2004. Analysis performed by consultants for PJM showed cost increases of over 27% for a plant starting construction on Jan. 1, 2008 in each of the three relevant sub-regions of PJM.

The CONEs need to be updated to produce efficient pricing and send the right signals for generation investment, PJM said.

PJM is using the same methodology as previously approved to calculate the CONEs, and wants the new CONEs to be used in the May 2008 auction.

As with almost anything related to centralized capacity markets, stakeholder consensus has not developed, and a sharp line has been drawn.

The Generator and Transmission Owner segments of PJM's Members Committee favored the new CONEs, with 13 of 14 (93%) generator delegates supporting the new CONEs and 11 of 14 transmission delegates (79%) favoring them.

Predictably, the new CONEs, which will likely raise RPM auction prices, drew little support from customers and load-serving entities.

All 12 customer representatives on the Members Committee opposed the new CONEs as did

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PSEG Backs FERC Action on PJM Demand Response Payment

FERC was correct to allow PJM to end a supplemental payment to demand response, PSEG told the Commission (EL08-12).

The PJM Industrial Customer Coalition and ELCON want a rehearing, arguing FERC did not develop a record to justify its view that incentive payments in the Economic Load Response Program constituted "subsidies." In dissenting opinions, Commissioners Suedeen Kelly and Jon Wellinghoff urged further development of the record before Commission action.

But industrials, PSEG claimed, have, "characterized the expiration of this one limited subsidy or incentive payment, however it is labeled, as somehow marking the end of demand response initiatives in PJM."

"This is blatantly incorrect," PSEG argued.

PSEG supports further development of the RTO's Economic Load Response Program but argues the PJM stakeholder process is the correct forum.

PSEG opposes the incentive payment industrials want reinstated because demand response should be paid the LMP minus the generation component. The incentive, or subsidy, would pay demand response the generation component, even though the load-shedding customer already receives the value of savings associated with curtailing use, PSEG noted.

PSEG agrees with Commissioner Philip Moeller who voted to end the incentive payment, since "ultimately, it is other customers and LSEs who bear the cost of these incentive payments."

Industrials' rehearing request, PSEG claimed, fails to explain why such a "subsidy" would be just and reasonable when demand response still receives "significant payments for curtailing service."

PSEG wants to transition to a structure where customers do not require mandated payments to reduce demand, but instead see and react to market signals.

The Commission, PSEG reminded, wants RTOs to "develop rules to ensure the treatment of supply and demand resources on a comparable basis to the extent each is technically capable of providing the service." The Commission expressly said its aim is "not to afford demand resources preferential treatment over supply resources."

PSE&G Pilot Shows Customer Benefit from Peak Pricing

PSE&G won a major award for a peak pricing pilot that reduced customers' summer energy usage and bills, but will the New Jersey BPU take those results to heart?

The utility's myPower energy efficiency pilot was honored by the Association of Energy Services Professionals for reducing on-peak demand 47% on summer peak days in 2006 and 2007. Program participants also reduced their total summer energy use by 3-4% compared to a control group, and most customers saw lower energy bills.

Participants overall said they would recommend the program to a friend or relative. "Customers responded to the opportunity to conserve and shift load when power was in peak demand," said Susanna Chiu, director of utility marketing for PSE&G.

Similar studies on real-time pricing and smart meters consistently show customer savings, including pilots in California and Ontario.

But the BPU still insists all but the largest customers should receive a fixed, seasonal price for default service blended over three years, which does not reward customer load-shifting or conservation.

MidAmerican Would Keep Customers in the Dark on Efficiency Charge

Customers don't mind paying for energy efficiency measures as much when they don't realize they're footing the bill, MidAmerican Energy told the ICC yesterday (08-0107).

The distribution utility proposed a series of energy efficiency plans as required by state law, but asked the ICC for a waiver so it could bundle the costs into its delivery rate, instead of listing a separate line-item for the efficiency rider. Since the charge would not be bypassable it doesn't matter from a competitive standpoint in terms of a price-to-compare whether the fee is broken out or bundled. But the request does raise questions in general about bill unbundling and customer information and disclosures, and could set a bad precedent for retailers. We also wonder that if customers saw how much the programs cost, whether they would prefer to investigate if competitive efficiency providers could achieve the same targets at a lower cost.

MidAmerican pointed to its Iowa operations where an energy efficiency law prohibited a line-item surcharge for efficiency. The utility attributed strong customer participation, and accompanying energy savings, to bundling the charge.

"[I]ndividuals often have an immediately negative reaction to the addition of any cost on their utility bill," MidAmerican explained. Allowing the Iowa efficiency programs to grow without the "cloud" of a line-item surcharge has led to increasing customer participation and positive customer reaction, MidAmerican said

The ICC allows utilities to bundle the Energy Assistance Charge and the Renewable Energy Resources and Coal Technology Development Assistance Charge into the monthly delivery service fee, MidAmerican reminded. But we see a big difference between those regulated costs which don't provide a value-adding service and energy efficiency, which is offered in the competitive marketplace.

Calif. ISO Draft Aims to Fix Interconnection Backlog

While PJM's interconnection queue is hotly debated at FERC, merchant generators will tell you procedures in all regions could use some work.

The California ISO (CAISO), in response to a December FERC technical conference, has created a new draft proposal for Generation Interconnection Process Reform (GIPR).

The CAISO has 188 active interconnection requests totaling 62,608 MW (42,526 MW renewable) for a system with a historic peak of 50,270 MW.

That has "overwhelmed available resources, led to delays and frustration with the study process, and exposed, or reinforced, fundamental deficiencies in the current [Large Generator Interconnection Procedures]."

The ISO had previously identified "low barriers to entering the CAISO Queue and inadequate progress milestones as material, underlying causes to the high level of commercially questionable projects that populate the current queue."

Its reform process would create consecutive six-month "Queue Cluster Windows" where interconnection customers would submit completed interconnection requests which would include all currently required information plus new documentation and a $250,000 deposit.

Developers would have to identify a project's physical site location by "detailed maps and the project's proposed service interconnection point."

Developers would need to prove that they have "site control" through the plant's commercial operations date (COD) plus three years to allow for construction delays. Customers could post an additional $250,000 deposit in lieu of site control.

Interconnection customers would have to submit all required technical data with the request. The ISO noted a lack of technical data has caused delays in studies, and added that wind developers would no longer be able to submit their detailed electrical design specifications and other technical data requirements six months after submission of their interconnection request as is currently allowed under Order No. 661.

All interconnection requests would be validated by the ISO within 30 days of the close of the cluster window.

The ISO would then hold scoping meetings, develop base cases and perform studies.

CAISO would suspend projects currently in the queue if they are in the Feasibility Study phase or their Interconnection System Impact Study (ISIS) Agreement was due after Feb. 1, 2008.

This "clearing group" of projects would be subject to the new deposit and site control rules and would follow the new interconnection process starting at the base case development phase.

Luminant Says Formal Investigation for Inaccurate Resource Plan Not Needed

Luminant opposed the PUCT staff's recommendation for a formal investigation into the generator's submission of inaccurate information to ERCOT relating to Luminant's Resource Plan for a single operating hour on October 31, 2006 (docket 34996).

Luminant self-reported the violation the next day and has been cooperating with staff RFIs when it has been able to do so, it told the Commission. The generator has had to withhold some documents due to attorney-client privilege as it fired two employees responsible for the inaccurate Resource Plan and is being sued over the terminations.

Luminant does not dispute it submitted an inaccurate plan and thus does not see the need for a formal investigation by the PUCT with accompanying discovery, as it is willing to answer staff's questions informally.

Luminant objected to the staff's most recent report in the case which stated the staff, in November of 2007, had "instituted" a formal investigation of Luminant over the inaccurate Resource Plan. The November 2007 filing, Luminant pointed out, was a *petition* for a formal investigation, which only the Commission can grant. The Commission hasn't yet done so.

ISO New England Capacity Auction Hits Price Floor

ISO New England's first forward capacity market auction attracted 39,155 MW of generation and demand-side resources which competed to supply the 32,305 MW needed by the ISO.

Calling the auction a "new era" for New England, ISO New England CEO Gordon van Welie argued the auction "creates the market stability needed to encourage the long-term development," of the region's power infrastructure.

Bidding started at $15/kW-month and fell until hitting the minimum price established for the auction of $4.50/kW-month in the eighth and final round.

The vast majority of resources (30,239 MW) are existing power plants, a frequent criticism of capacity auctions. But starting in the 2010-2011 timeframe, the forward capacity market will let the ISO drastically cut expensive, out-of market Reliability Must Run (RMR) deals with generators needed for reliability but which are uneconomic to operate based on LMPs. The forward capacity market is to cut generation eligible for out-of-market payments from 3,200 MW to at most 330 MW in 2011.

Existing demand resources account for 1,366 MW of the capacity auction's total.

New resources include 626 MW in generation and 1,188 MW in new demand response, energy efficiency and distributed generation.

Constrained Connecticut accounted for 592 MW of new resources while Massachusetts saw 757 MW of new resources and Maine saw 170 MW.

Over 15,800 MW of resources have expressed interest in the December 2008 forward capacity auction.

Shelk Points to Competition as GHG Solution

EPSA CEO John Shelk touted competitive markets' role in reducing greenhouse gas (GHG) emissions at a Northeast Energy and Commerce Association dinner.

Sulfur dioxide emissions are 51% lower in restructured states than in regulated states while nitrogen oxide emissions are 40% lower and carbon emissions are 22% lower, Shelk noted.

"Competitive suppliers are single-handedly responsible for the successful deployment of more efficient combined cycle gas technology that produces more electricity with less natural gas and lower emissions," he added. Independent power producers, "did the same with co-generation, or combined heat and power." Those technologies "would still be on the shelf were it not for federal and state decisions to break the barriers to competition," Shelk proclaimed.

Shelk favors a federal system for mandatory, market-based GHG limits and warned that critics of competition cannot be allowed to, "undermine competition by unfairly tilting the manner in which emissions allowances are administered."

Shelk stressed that, "sustained market-based price signals" are needed to justify investments and is encouraged by capacity auctions in PJM and ISO New England. "It is essential that the capacity markets be allowed to continue and that they are allowed to reflect economic reality," Shelk argued.

Briefly:

Boston Garden Picks ConEdison Solutions

ConEdison Solutions inked a deal to supply electricity to Boston's TD Banknorth Garden, home of the NBA's Celtics and NHL's Bruins. ConEdison Solutions says the price will save the Garden 15-20% off the Nstar rate. The Garden used a consultant to select ConEdison Solutions.

EEI's Kuhn Pushes Efficiency "Business Model" for IOUs

Regulators must allow utilities to develop "new business models that enable efficiency to become a full-time business for utilities," EEI President Thomas Kuhn told Wall St. yesterday. Energy efficiency will reduce emissions while meeting demand, but must be viewed as the equivalent of generation, Kuhn added. Kuhn called for "realistic" carbon-reduction targets tied to development and commercialization of control technologies, warning that not harmonizing goals with available technology would result in "tremendous price pressures on natural gas, higher consumer prices and heavy burdens on the competitiveness of U.S. industries." Kuhn favors an upper limit on the price of carbon allowances as well.

High Interest in Luminant IGCC

Luminant has received 14 expressions of interest in response to its RFP for Integrated Gasification Combined Cycle (IGCC) or other coal gasification technologies that include carbon capture. Before going private, the former TXU merchant generator considered IGCC technology too experimental, but as part of its leveraged buyout promised environmentalists it would build two commercial demonstration plants in Texas.

ICC Loses Again at FERC on Transmission Costs

FERC denied more protests from the ICC and Commonwealth Edison over the socialization of 500 kV transmission costs in PJM (ER08-229). The Illinois stakeholders used a November PJM cost responsibility filing to again complain that the cost sharing makes them pay for projects that relieve Eastern congestion and do not benefit Illinois, issues previously litigated in dockets ER06-456, et al. FERC found the issues were the same as those the Illinois parties had raised before in a rejected rehearing request of Opinion No. 494 and denied the protests.

PJM RPM CONEs *... From 1*

10 of 11 (91%) electric distribution utility voters. The "Other Suppliers" category split but overall favored new CONEs by 53%. The group includes wholesale power traders, financial marketers and competitive retail suppliers.

The SCC believes the "substantial" CONE increases aren't warranted, and that PJM has not demonstrated the new costs are just and reasonable.

The Illinois zone CONE would rise 40% from $73,866/MW-Year to $104,260/MW-year, the SCC noted. The New Jersey zone CONE would rise 48% while the Maryland zone CONE would increase 42%. The SCC asked FERC to set the matter for hearing to give parties more time to evaluate PJM's data.