Energy Choice Matters

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# Reliant Retail Suffers Through ERCOT Churn, Wholesale Unit Lifts Earnings

Reliant Energy aims to turn its retail business around after a sluggish 2007 by entering the New York large C&I market and by rolling out new "Smart Energy" products to Texas mass market customers to boost retention, COO Brian Landrum told analysts on a conference call.

Reliant, which has been laying the foundation for its New York move for some time, will also decide whether to enter the New York mass market later this year.

Although annual retail contribution margin fell $33 million versus 2006 to $504 million, CEO Mark Jacobs sees the retail business as "relatively stable" in the near term with "attractive" long-term growth.

Reliant faced increased pressure in its core Texas mass market business. Despite retention efforts and acquisitions in areas outside of Houston, the retailer still lost 71,000 residential customers in ERCOT last year. Landrum reported ever-increasing spending from competitors on marketing and advertising in ERCOT plus intensified pressure for small and medium C&Is, particularly through broker channels.

In fact, Reliant's reduction in mass market margin last year came primarily from lower volumes and margins among smaller C&Is, he explained.

To combat these challenges, Reliant is accelerating a rollout of new products and services under the "Smart Energy" banner during the first half of this year. The new offerings are to reduce bills, improve market reliability and lower environmental emissions.

Landrum boldly told investors the products would change, "the basis of retail competition in ERCOT," by transforming the way customers use and value energy.

The Smart Energy products are to build high value, long-term relationships with customers and

***… Continued Page 5***

# MISO Ancillary Services Markets Get FERC OK

FERC conditionally accepted the Midwest ISO's proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal (ER07-1372).

FERC found the ASM will "yield substantial reliability and efficiency benefits," and Chairman Joseph Kelliher called the action a "significant step to improve power markets in the Midwest."

Scarcity pricing would be implemented through the use of demand curves in shortage conditions and greater participation by demand resources.

FERC disagreed with stakeholders who argued that scarcity pricing would not provide an incentive for new construction, contracting or demand response. The Commission determined that being able to see the "proper" price signals in all hours, especially during periods of scarcity, will allow loads to contract with generators and demand resources to mitigate the risk of paying scarcity prices.

"The ancillary services market provides a greater opportunity for price competition from demand response, and will improve efficiency and reliability in this broad region," Kelliher said.

MISO will simultaneously co-optimize the energy and operating reserve markets and expects the improved efficiencies of the ASM to provide between $88 million and $183 million in benefits annually.

The ISO will determine operating reserve requirements and procure operating reserves from all

***… Continued Page 5***

## NY PSC Adopts Volatility-Limiting Guides, Not Mandates, For Mass Market Default Service

New York utilities are to implement goals to limit mass market default price volatility but will not be ordered to follow strict standards, the New York PSC ruled (06-M-1017 Phase I).

The PSC found that standard deviation and co-efficient of variation (CoV) metrics are appropriate tools to monitor the volatility of utility supply portfolios, but concluded experience with the metrics is insufficient to justify adopting strict constraints limiting the degree of volatility utilities can tolerate. Sole reliance on the standard deviation and CoV metrics to set strict standards, "could create perverse incentives," the PSC cautioned.

The PSC directed utilities to use the metrics to set volatility goals, but noted utilities should be free to respond to changing and unanticipated circumstances.

The Commission determined that utilities should report quarterly the relevant wholesale electric market prices and the hedged portfolio electric supply prices for the previous twelve months, and required the reports to include the twelve month rolling averages for standard deviation and CoV for both prices.

Utilities are to differentiate their reports by service classification and National Grid and Consolidated Edison are to report volatility statistics for each of their separate regions since the locales are in different ISO load zones. Grid is to report data broken up by its East, West, and Central operating areas while ConEd was directed to report separate stats for its Westchester and New York City regions.

The PSC declined to implement further disclosures requested by competitive retailers, such as requiring utilities to forecast the potential effect of existing hedges on future default service prices.

## Mich. PSC to Probe Universal Gas & Electric

The Michigan PSC initiated a formal investigation into the marketing and customer service policies and practices of alternate gas supplier Universal Gas & Electric.

Universal had received a conditional alternate electric supplier license Jan. 29 but with it came reporting requirements to address "numerous" customer complaints the PSC had received from gas customers.

The marketer chose to give up the electric license Feb. 1, because, the retailer says, the license was only good for two years and it mainly sells five-year contracts, which it could not do with confidence with a two-year license.

Still, PSC will be looking into Universal's gas complaints (case U-15509). According to a PSC order, customers have alleged that:

- "UGE has secured residential customer authorization to switch to UGE by misleading or false representations;
- "UGE has made represenions [sic] that a contract with the company signed by a non-accountholder is binding on the actual account holder;
- "UGE has made various misrepresentations regarding the amount of savings a customer will initially realize by switching the customer's gas service to UGE;
- "UGE has made statements regarding future prices and savings that are misleading or false;
- "UGE has failed to clearly disclose that purported savings apply only to the commodity portion of the total gas bill;
- "UGE has failed to clearly inform customers that they are entering a contract for five years;
- "UGE has failed to inform customers of their right to cancel the contract within 30 days and of the $250 early termination fee for cancellation after 30 days;
- "UGE has failed to provide customers with copies of executed contracts and has failed to provide customers with contract confirmation within seven days as required by Commission tariffs;
- "UGE has obtained from customers their current utility bills and failed to return the bills within the 30-day cancellation period, thereby depriving customers of information necessary to evaluate UGE's prices and determine whether or not to cancel UGE's gas service during the cancellation period."

Universal is to submit a report on complaints in 30 days with updates every three months for a year.

Meanwhile, Universal's attorneys demanded TV station WJBK (a Detroit Fox affiliate) retract several statements about the marketer, its prices and its practices which were partially based on an interview with a former Universal agent that aired on a Feb. 20 report.

Universal indicated a suit based on slander is possible without retraction.

In Universal's letter to WJBK, an unidentified former sales agent from Universal claims WJBK offered $1,000 for the agent to do an interview about Universal's practices.

## PUCT Staff: Luminant Penalty Must Outweigh Profits

**CONTINUING COVERAGE**

The maximum penalties Luminant had suggested apply to its alleged withholding in ERCOT during 2005 (Matters, 2/20/08) would not deter market power abuse and actually encourage improper behavior, the PUCT staff explained in a response to Luminant's appeal (docket 34061).

Based on PUCT administrative rules, Luminant had suggested it would face a maximum penalty of $5,000 per day, or a total of $610,000, should the staff prove its case.

But Luminant allegedly made $18.8 million from economic withholding, staff alleged.

A meager $610,000 penalty would be the "cost of doing business" and not deter generators from withholding power, the staff argued.

Luminant also suggested a maximum fine of $7.9 million under a different reading of the penalty codes, but even that sum would give the generator a 137% return on its payment of the penalty, staff noted.

The staff reasoned that each MWh and MW of withheld generation is a separate violation and is subject to an individual penalty.

"[T]here simply is no other rational unit by which withholding of production can be measured," staff claimed.

Treating each bid – even if 1,000 MW – as a single violation subject to a $5,000 cap would allow market participants to maximize their profits unchecked simply by accounting for the minor penalty that would accompany each bid made in pursuit of the improper withholding.

That approach would also treat withholding a single megawatt the same as withholding 1,000 MW, which clearly causes vastly different damages to the market, staff observed.

Staff has asked for a $170 million penalty.

## Delmarva Residential Bills to Rise 2% Under New SOS Rates

The average residential price from Delmarva Power's 2007-08 SOS RFP is 15% higher than last year, the Delaware PSC reported, with an average weighted price of $109.90/MWh for residential service.

The actual price increase in retail rates, which are to be released by May 2, will be muted since Delmarva ladders its residential SOS over three years, with one-third of default power needs bought in the annual RFP.

The PSC estimates that residential customers will see an increase of less than 2% on their total bill for electric service. The bill impact for small commercial customers will be about the same, the PSC said.

For three larger C&I classes, winning bids ranged from $95.80/MWh to $101.53/MWh and were anywhere from 1% lower to 9% higher than last year, with bill impacts estimated from a 1.3% decrease to a 7.4% increase.

For C&Is, Delmarva buys 100% of SOS needs annually.

Delmarva held two separate bid days in November and January, with 11 suppliers bidding on the RFP. Constellation Energy Commodities Group and Hess Corporation were awarded SOS contracts as Delmarva bought 577.5 MW of Peak Load for full-requirements SOS service.

The PSC also allowed Delmarva to provisionally true-up its reasonable allowance for retail margin (RARM) subject to refund pending further investigation (07-364). The change adds less than 1% to residential SOS rates and is needed to reflect costs Delmarva actually incurred by providing SOS.

## Constellation, Md. PSC Again Spar Over Nuke Fund

**CONTINUING COVERAGE**

Lawyers for Constellation Energy appeared before the Maryland PSC for Round 2 of hearings on ratepayer liability for the Calvert Cliffs decommissioning funds (Matters, 2/7/2008).

As in the Feb. 6 hearing, the PSC expressed concern that the deal which capped ratepayer liability for the costs allows Constellation to keep ratepayer-collected funds if the plants cost less to decommission than the cap.

"There was no knowledge of what ratepayers were signing onto," claimed PSC Chair Steve Larsen. But Mike Naeve of Skadden Arps, counsel for Constellation, called the 1999 settlement a hedge for customers, and noted it shielded customers from risks that decommissioning costs would rise.

Although Larsen saw the potential for a “billion-dollar windfall,” for Constellation, Naeve argued it was too early to tell how inflation and other factors would affect the final cost. Ratepayer liability is capped at $520 million in 1993 dollars for the plants’ expected decommissioning in 2034.

But as revealed at the Feb. 6 hearing, Constellation has told the NRC it expects decommissioning to cost less than initially projected. Naeve reported a recent review projects costs to be 4% less than the ratepayer cap.

Constellation separately indicated it may file a lawsuit against the state as early as this week as a 30-day notice period to the state’s AG expires. Constellation told investors in January it intended to sue to recover $386 million in decommissioning credits illegally taken by SB1 in 2006.

## *Briefly:*

### Two More Maine Industrials Can Bypass Retailers

The Maine PUC granted competitive electricity provider licenses to two industrial customers wishing to self-supply their load from NEPOOL: Garland Manufacturing Company (as Garland Power Company) and cement-maker Dragon Products (as Dragon Energy). The dockets were 2008-71 and 2008-92, respectively (Matters, 2/6/2008).

### TXU Branding to be in Schools

TXU Energy is sponsoring the National Energy Education Development Project’s solar energy education program, and the program branded as TXU Energy Solar Academy will bring local schools the latest solar technology and energy lessons. About 40 school districts will receive a free 1-kW solar array that will be web-based and show real-time data on how much electricity is being generated.

### CL&P Bill Problem a “One-Time” Error

**CONTINUING COVERAGE**

Connecticut Light & Power’s billing error that caused 2,117 customers to not receive a January bill (Matters, 2/21/2008) was a “one-time data transfer issue” caused by the change in time periods for time-of-use rates, the utility told the DPUC in an update (08-02-06). CL&P’s systems collected data accurately but an interface problem prevented meter reads from being entered into the billing system. CL&P also determined 282 Rate 7 customers were affected by the billing problem. Although those customers did receive on-cycle bills, the bills may have been inaccurate.

### Texas Workshop on DG

The PUCT staff is holding a workshop on a strawman regarding net metering and interconnection of distributed generation on March 18 in Austin (project 34890). Stakeholders wishing to present at the workshop should contact David Smithson at david.smithson@puc.state.tx.us or 512-936-7156.

### PUCT to Study Efficiency

The PUCT issued an RFP for a study on energy efficiency and potential cost effective programs. The awardee will file a report with policy recommendations for existing programs, including whether the PUCT should raise the efficiency target to 30% of load growth by

2010 and 50% of load growth by 2015. Responses are due March 25 (http://www.puc.state.tx.us/about/procurement/currentrfps.cfm). Last year lawmakers increased the savings goal from efficiency to 15% of annual load growth for 2008 and 20% for 2009. Utilities have been soliciting REPs to become more involved in the incentive programs currently used by energy service companies, but most REPs have struggled to make the economics work.

**Higher Price for Green Power Not Supported**

Four out of 10 Americans won't support paying more for green energy, a Financial Times/Harris Poll found, while 71% would not pay an extra $220/month on power and gas bills to fight carbon and support more green energy (a sum the European Commission thinks is needed to achieve those goals). 52% favor building new nuclear plants while 92% favor building more wind farms.

**Judith Judson to Beacon Power**

Former Mass. DTE Chair Judith Judson joined Beacon Power as Director for Regulatory and Market Affairs. Judson got shuffled out during the DTE's (now DPU) reorganization under a new Democratic administration last year. Beacon Power develops flywheel energy storage technology to provide frequency regulation services on the nation's bulk power system.

**ICF Bullish on Voluntary Carbon Offset Market**

ICF International claims a "record" number of companies went carbon neutral last year and expects demand in the voluntary carbon offset market will grow from around 20 million tons of $CO_2$ in 2006 to 220 million tons in 2012. ICF noted the lack of good quality offset projects and highly fragmented product supply and pricing could slow voluntary market growth. Complex, unregulated, and non-transparent markets create additional risks, ICF added, as does the lingering threat of government regulation.

# Reliant … From 1

will also provide concrete proof points to help open other retail markets, Jacobs added.

Reliant has shifted growth efforts outside of Houston from sheer volume of meters to improving the mix and quality of new accounts. Landrum stressed Reliant aims to "segment" customers – meaning determining what customers value most and delivering that to them better than competitors. He noted that price itself is one variable customers use to make decisions, but not the only factor.

Landrum touted Reliant's successful entry into the Delaware and Illinois large C&I markets last year and sees the retailer's strength in that segment bringing consistent margins in the future.

For the year, Reliant posted a $365 million profit compared to a $327 million loss a year ago, with gains greatly helped by its wholesale unit which saw higher power and capacity prices in PJM.

# MISO ASM … From 1

qualified resources, departing from the current system of local management and procurement of reserves by 24 Balancing Authorities. Balancing Authorities are responsible for maintaining the balance of loads and resources within their particular physical boundaries.

By borrowing features from PJM, ERCOT, ISO New England and the New York ISO, MISO designed a market "that incorporates the best features of other ASMs," the Commission ruled.

FERC adopted a "comprehensive package" of market mitigation measures to ensure ASM market prices are just and reasonable.

The ASM is to start June 1.

FERC accepted the MISO's proposal to combine spinning and supplemental reserves into a single product category — contingency reserves — based on analysis by the independent market monitor that the products are effectively substitutable. The market monitor explained that the ISO has the capability to substitute supplemental reserves with spinning reserves or create spinning reserves from supplemental reserves by committing quick-start resources that would otherwise supply supplemental reserves as off-line resources.

## Day S. Fla. Stood Still

Matters HQ in South Florida wasn't affected by the massive Florida Power & Light outage that mainly hit Miami Dade, Broward and Palm Beach counties (but stretched into other utilities from the Keys to Tampa and Orlando) but it caused the networks here to break into scheduled programming with live coverage and was the talk at the local Publix market during the afternoon.

At press time, FP&L was blaming a failed disconnect switch at a west Dade substation for triggering the event. The disturbance caused eight power plants and 15 major transmission lines to shut down to protect the grid, including the two nuclear reactors at Turkey Point which scrammed. Turkey Point is about 30 miles away from the problem substation.

The loss of that generation is what really caused problems as utilities were required to shed firm load. In total, the system lost 2,500 MW of generation, prompting about 4,000 MW to be shed.

At its height, state regulators estimated four million people were without power, though FP&L estimated some 800,000 "customers" (meters) were dark with thousands more reported by neighboring utilities.

Reflecting on the blackouts some hours after nearly all power has been restored, we credit FP&L for what we consider a quick restoration effort (about half of the system was restored in two hours with nearly all service restored in four hours or so) and credit operators for using wise judgment in shedding firm load when conditions warranted, rather than over-stressing the grid and possibly causing severe damage that would take weeks, if not months, to fix.

However, we'll still make a few observations, because we know had this occurred in an RTO the first thing we'd hear is that "deregulation" was to blame. FERC, for its part, is monitoring events and will determine if any reliability rules were violated. While FP&L's response was quick and commendable, the utility has a lot of work to do to convince us that a minor switch problem at a substation should have triggered hours of blackouts for millions of customers, and that it is properly maintaining and investing in its franchised monopoly system with the rate of return granted by policymakers.

First, we have to wonder what would have happened had Florida been in an organized market; could more resources have been dispatched more quickly to avoid as much load shedding as occurred.

This week has been unseasonably hot in South Florida, and we have to wonder if a more robust load forecast from an ISO would have provided for more contingencies should a major base load plant have tripped offline.

Additionally, while policymakers debate fuel diversity, too often geographic diversity is overlooked (except by distributed generation companies and proponents) because of the reality of NIMBYism and the relative "ease" of siting new generation at brownfields (such as FP&L's desire to expand Turkey Point's nuclear capacity). But today's blackouts only affirmed the fragile nature of central station power if a fault switch at a substation 30 miles away can knockout one of the grid's biggest suppliers. The new capacity FP&L wants at Turkey Point simply would have been worthless today, and while we doubt it could be sited anywhere else, what good is it if it can't provide the contingency it's supposed to provide.

Finally, two weeks ago we visited the Hampton House national historic site near Towson, Md, a post-colonial estate which did not install electricity until the late 1930s (although it did have gas lighting). While much of our routines depend on electricity, and while it is indeed essential for some critical care customers, too often when it comes to electric policy (particularly disconnects), we forget people survived for thousands of years without running electrons in their households, and while not a "luxury," electric service is also not food, water or shelter. Loss of power is not the end of the world.