Energy Choice
Matters

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APPA Sees Return to Day-1 RTOs as Market Fix

APPA's solution to a litany of problems plaguing organized wholesale electric markets is to transform day-2 RTOs with centralized LMP markets into day-1 RTOs that primarily provide open access to members' transmission systems, the municipals group argued in a white paper.

APPA's proposal would eliminate RTO-run centralized power supply, ancillary service and locational capacity markets, "that have failed to produce sufficient benefits for consumers," the white paper said.

Day-1 RTOs would preserve the beneficial services APPA finds in organized markets (including non-discriminatory OATTs, elimination of pancaked rates and greater coordinated regional transmission planning) while promoting long-term bilaterals, APPA reasoned.

Although APPA's condemnation of day-2 markets was clear, we found the paper to waver on whether APPA thinks market-based rates are appropriate in its day-1 solution.

APPA explained that under its day-1 approach, most energy would be sold under regulated retail rates, wholesale bilateral contracts (which would be at market-based rates if the seller held the appropriate market-based rate authority), or retail supplier pass-through of wholesale power purchases.

Yet the white paper also argued, "It is time to acknowledge that market forces alone are not sufficient to discipline prices and ensure adequate service in the electric utility industry."

That sentiment was not specifically directed at day-2 RTOs, and we don't know how to read that statement as anything other than indictment of MBRs (which APPA says are permissible under its day-1 approach) and a call for market mitigation (price caps) or a return to cost-of-service regulation.

Much print in the paper is devoted to railing against "excessive" or "supra-normal" profits. While APPA might have a point with respect to baseload resources earning the market-clearing LMP, we

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EPSA Denied on Sunset for MISO BCA Mitigation

FERC denied a rehearing request from EPSA and will allow the Midwest ISO to permanently extend its Broad Constrained Area (BCA) mitigation measures (ER07-1182-001). EPSA had asked for a rehearing because it found the MISO's cost-benefit analysis of the mitigation to be flawed, and urged the Commission to extend BCA mitigation only for a year with a subsequent review before any further continuation.

FERC rejected EPSA's cost-benefit analysis since it was only introduced on rehearing and not before the issuance of an order.

Accepting EPSA's evidence would, "undermine the administrative process," absent compelling circumstances which EPSA did not cite, FERC found.

While not accepting EPSA's evidence, FERC, in a footnote, argued EPSA's analysis was faulty as well.

FERC found that BCA mitigation "strikes the right balance for mitigation without over-mitigating or under-mitigating the market," and addresses market power concerns without undermining current incentives for market entry and long-term resource adequacy.

"BCA mitigation only on an interim basis for another year would send a muddled signal to the market about the Commission's intent to ensure just and reasonable rates in these areas," the Commission added.

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Briefly:

Calm Winds Force Interruptions in ERCOT

ERCOT late Tuesday shed 1,100 MW of load from interruptible customers under step two of its Emergency Electric Curtailment Plan as the grid experienced a sharp drop in wind power resources from 1,700 MW to 300 MW, and a 4,000 MW spike in demand (to about 35,000 MW). ERCOT also reported multiple suppliers provided less power than scheduled. Ironically, ERCOT yesterday held a scheduled workshop on wind integration as wind generators have complained ERCOT discounts their availability too greatly in forecasts. Interruptible customers had power back on within 90 minutes.

FirstEnergy Solutions Wants Illinois ARES License

FirstEnergy Solutions applied to become an alternative retail electric supplier in Illinois and would bypass the saturated Commonwealth Edison market in favor of selling in AmerenCILCO, AmerenCIPS and AmerenIP (08-0142). FirstEnergy Solutions applied to serve all customer classes in the Ameren territories and does not intend to provide single billing services (supplier consolidated billing). Although many ARES have initially focused on selling in ComEd because of its Chicago market and relative operational ease with its location in PJM versus MISO, FirstEnergy Solutions has ample history operating in the MISO market in Ohio and western Pennsylvania where its parent owns several distribution utilities.

Dynegy Trims 4Q Loss, Reports Profit for Year

Dynegy narrowed its fourth quarter loss to $46 million versus $58 million in the 2006 quarter. Quarterly revenue more than doubled to $724 million from $343 million, helped by the IPP's acquisition of LS Power, but cost of sales more than doubled, to $535 million from $229 million. For the year, Dynegy posted a profit of $264 million, reversing last year's loss of $342 million. CEO Bruce Williamson told investors that the IPP had no financing needs, and a strong capital position which will allow the merchant generator to pursue strategic combinations or asset acquisitions. For 2007, Dynegy also reported a $25 million pre-tax charge in connection with Illinois rate relief legislation.

EnerNOC Contracts Up, But Loss Grows on Higher Costs

Despite higher revenues, EnerNOC posted a wider fourth quarter loss at $9 million versus a loss of $4 million in the prior year's quarter. Revenues for the fourth quarter jumped from $5.9 million a year ago to $19.7 million, but the demand response provider faced higher costs from expanding its workforce, especially in the Texas and Ontario markets. For the year, EnerNOC lost $23 million versus $5.8 million a year ago, with annual revenues rising to $60.8 million from $26.1 million a year ago. But the annual cost of revenues grew $22 million to $38.9 million. EnerNOC added 703 MW of demand response during the year, pushing its total under contract to 1,113 MW. During 2007 customer count grew to 794 across 2,195 sites from 304 customers across 892 sites in 2006. Nearly all of EnerNOC's growth was organic.

DPUC Faults CL&P on Customer Service, Meters

Connecticut Light & Power "failed to be responsive" to customer complaints about high bills last summer by refusing meter tests or by not allowing customers to speak with a supervisor, the DPUC found in a final order on its investigation into CL&P billing and metering (07-08-14). "The Company's attitude of believing that a meter test should only be used as a last resort and its lack of commitment to helping its customers lead [sic] to the loss of confidence in the Company and angry customers," the DPUC noted. The DPUC criticized CL&P's lack of metrics to track customer calls that are escalated to supervisors, and whether customers get put on hold or if customers get to a live person or voicemail. The DPUC will form a working group by March 31 including the Office of Consumer Counsel to discuss forthcoming changes to CL&P's bill format. The

Department will actively monitor CL&P customer service performance until regulators determine it is no longer necessary.

Ameren Defends MBR for Dynegy Regulation

CONTINUING COVERAGE

Ameren Services objected to a protest from Constellation Energy Commodities Group and munis who had asked FERC to refuse Dynegy's request to sell regulation services to Ameren at market-based rates (ER08-356). Constellation had argued that a competitive market did not exist since only four bidders participated in Ameren's RFP (Matters, 2/13/08). But Ameren argued that fact only shows potential bidders had other options, noting 15 parties were eligible to provide regulation service (of over 30 invited to participate in the RFP) and no party has claimed to have been unfairly excluded from participation. Dynegy's selection was the result of a fair and independently administered RFP Ameren reported, noting the Commission granted Dynegy a waiver to sell regulation services last year after a similar RFP.

Allegheny Did Send PSC Updated CFL Materials

CONTINUING COVERAGE

Allegheny Energy, while not detracting from its responsibility in mismanaging its CFL program (Matters, 2/18/08), told the Maryland PSC it did indeed respond to a September Commission directive to update its brochure to incorporate the Commission's feedback. Allegheny sent an updated brochure to the Commission on October 16 but did not receive feedback from the Commission that the materials were unsatisfactory (ML# 109611).

New ERCOT Contracts on NYMEX

The New York Mercantile Exchange is introducing eight new cash-settled electricity futures contracts for the ERCOT market on March 9 for trade date March 10. The monthly and daily contracts will provide risk management for the ERCOT day-ahead market and will settle based on ERCOT Broker Indices published by SNL Energy.

Sofitel Goes All Green

Accor's Sofitel Hotels is buying wind power from Iberdrola's Community Energy for all nine of its U. S. locations. Accor claims it is the first hotel chain to power all its locations with green power, although individual hotels have been buying green power for some time. The deal is for 1,527,000 kWhs.

ConEd Solutions Gets Fla. Nod

ConEdison Solutions, through its BGA energy service and engineering subsidiary, has been selected as a qualified energy services contractor by Florida's Department of Management Services following a competitive selection. That means BGA has been pre-qualified as a guaranteed energy performance savings contractor for state agencies and local governments.

MISO BCAs … From 1

A sunset on BCA mitigation would boost market uncertainty and could make parties more reluctant to participate in the energy market, the Commission ruled.

FERC rejected as well a request for clarification from Reliant Energy, as the Commission refused to order the MISO market monitor to perform a formal cost-benefit analysis on BCA mitigation in each State of the Market Report.

APPA White Paper … From 1

are a bit cynical that eliminating LMP is going to end charges that prices for power are too high or "excessive." We have to wonder, should its day-1 approach be adopted, if five to 10-years from now we'll still be writing about "excessive" profits even in balancing markets and bilateral transactions, and calls for a "cost-based" regime. Even under cost-of-service (or cost-plus) regulation, we've seen (from other parties) criticisms of "excessive" rates of return allowed by regulators who are too cozy with utilities.

EPSA CEO John Shelk saw APPA's proposal as a "back door" to ratebased generation despite the muni group's claims to the contrary. Shelk questioned the timing of APPA's paper, noting it comes a week after FERC concluded in a NOPR that refinements, not radical changes, were needed in organized markets (Matters, 2/22/08). He wondered why APPA did not offer its proposal during stakeholder review of FERC's advanced RTO rulemaking.

Any changes to organized markets must make "pricing mechanisms more reflective of economic realities," Shelk added.

But APPA argued that the "structural features of the electric utility industry (high capital costs, high barriers to entry, control by incumbents of generation sites, etc.) make it difficult for true competition to develop or flourish."

It's "increasingly apparent that leaving electricity pricing and supply up to these 'markets' is an invitation to exercise market power," APPA added.

"RTO-run markets are neither competitive nor free," APPA argued. RTO "markets" are, "essentially administratively developed constructs featuring centralized repeated auctions, in which oligopoly sellers can quickly learn the strategies of other bidders and adjust their own bids accordingly," APPA found.

Centralized bid-based auction markets have changed the incentive structures faced by competitive generators, APPA reasoned. Measures that would reduce congestion or prevailing market prices would reduce the profits of incumbent companies with large competitive generation portfolios, munis argued.

According to APPA, incumbent generators have clear disincentives to make investments that might reduce prevailing prices (and benefit consumers) while new competitors often find asset-based entry difficult to impossible, unless such entry is supported by factors such as long-term contracts with load-serving entities (often public power utilities rather than investor-owned utilities which, in many cases APPA said, no longer have an obligation to serve) or regulatory and tax policies (principally state renewable portfolio standards and federal production tax credits).

APPA noted that the high capital costs to build new generation, the long lead time, and concentration of the most attractive sites among incumbent generators all act as "significant" barriers to entry that prevent competition from working as expected.

In fact, APPA finds, "no evidence of any relationship between locational marginal pricing (LMP) signals and the construction of new generation and transmission facilities."

Centralized capacity markets – which APPA sees as another patch designed to fix a failed system – are costing customers, "billions in additional charges," munis argued, claiming, "it is highly uncertain, at best, whether these markets will support future development of enough new generation facilities to meet demand."

"No amount of free market rhetoric or touting of environmental benefits can cover up the increasing shortfall of new generation capacity required to ensure adequate electricity supplies in future years, at the same time that billions of dollars are simply leaving the market in the form of profits to shareholders of unregulated generators," APPA continued.

In short, APPA claims that the gap between regulated and unregulated prices has widened and profits of owners of unregulated generation facilities have increased, while projected reserve margins continue to shrink and many portions of the transmission system remain congested.

"The debate should no longer be about who can best massage the statistics on prices or whether it is more virtuous to support 'competition' or 'regulation,'" APPA said.

Nevertheless, APPA's white paper was riddled with citations to various studies showing the failure of RTO markets, and spent four pages chronicling the, "growing body of evidence on the consumer harms and absence of benefits from the current market structure."

And APPA couldn't go 13 pages without linking competition to decreased reliability. "The complexity of the transition to using RTO markets to operate a large multi-state power system may also have contributed to the August 14, 2003 Midwest/Northeast blackout, by distracting bulk power system facility operators at the Midwest Independent Transmission System Operator and First Energy from their respective obligations to comply with the North American Electric

Reliability Corp. reliability standards," APPA observed.

Although almost everything else in the white paper was backed with a citation, this assertion was not.

APPA pointed to day-2 RTOs as weakening bilateral markets and thus making generation more difficult to build.

The munis see a day-1 approach de-emphasizing participation in RTO-run centralized markets by both buyers and sellers thus fostering longer-term bilaterals.

Long-term bilateral contracts are increasingly difficult for purchasers to obtain under "reasonable terms and conditions," APPA cautioned.

Bilateral prices have been "substantially influenced" by high LMPs, APPA reported, and noted it is "uncommon" to find bilaterals longer than five years, or that are backed with specific generation units.

What bilaterals are offered are not tied to specific electric generating resources and therefore cannot be used to meet the buyer's locational capacity market obligations, APPA complained.

Today's bilaterals do not insulate customers from the payment of RTO congestion charges, which are collected through an additional charge on top of the RTO's "base" transmission rate, APPA added.

Nearly all medium and long-term bilateral contracts are indexed to natural gas prices and tend to pass through RTO administrative costs, congestion charges and the "exorbitant" costs of RTO generation capacity markets, APPA said.

"The lack of such long-term contracting makes it more difficult to finance needed new electric generation projects, including clean and innovative sources of power. Moreover, in the absence of regulatory measures to assure adequate supplies of electricity to enforce a traditional service obligation by electric utilities to their retail customers, generation owners and incumbent utilities have little incentive to invest in new generation and transmission infrastructure," APPA claimed.

APPA thinks its day-1 regime would foster long-term power supply contracting and provide certainty needed for new supply investments. It would also reduce complexity and costs imposed on consumers by day-2 RTOs, both directly through their tariffs and administrative fees and indirectly through load-serving entities' increased costs of internal operations, APPA said.

The transition back to day-1 RTOs would be challenging, APPA conceded, and take some time. APPA intends to produce a more detailed description of its proposal in a separate document, which will be published later this year.

Shelk seized on that point, noting, "This is time the nation does not have, if the unprecedented level of investment in large-scale, multi-decade projects, each costing in the billions of dollars, is to occur in a timely manner."

One of the biggest obstacles would be getting back to a physical transmission rights model, if one were adopted as part of a day-1 RTO.

"It may be difficult to provide non-pancaked non-discriminatory transmission service under a physical transmission rights regime (at least without a substantial transition period) given that Day 2 RTOs superseded such rights with financially based rights," APPA noted.

Physical rights may also be more difficult to administer, given the size of some existing RTOs, munis concluded.

APPA's day-1 RTO would also run an imbalance market and impose resource adequacy requirements on individuals LSEs.

APPA offered several interim measures to prevent further harm to consumers as it develops its day-1 proposal.

APPA called for a "moratorium" on both the establishment of new RTO-run centralized markets as well as the implementation of new markets for additional products and services in existing RTOs, "unless such markets are supported by all classes of stakeholders and accompanied by a valid cost/benefit analysis."

APPA wants RTOs to publish generator bid data on a next-day basis, noting the practice is common in England, Wales and Australia. APPA suggested open identification of generators, with posting of generator cost and operating data.

"This added transparency would discipline market behavior because bidders would know that they were operating in full view of the public," APPA claimed.

APPA wants FERC to consider requiring RTOs to report their "system lambdas" -- the variable cost of the last kilowatt produced over a set time period from the dispatchable generation units participating in each RTO's power supply markets.

That data would allow observers to compare the prices set by markets with the underlying generation costs, APPA explained. APPA also wants greater reporting of non-utility generators' costs, finances and operating data.

APPA dismissed concerns that greater and faster bid disclosures would permit collusion, arguing sophisticated generators can already learn the bidding strategies of their competitors through repeated interaction in an RTO's auction-based markets.

APPA wants a stronger, more explicit focus on end-use consumers in RTO's mission statements and governance. Mission statements "should include an explicit goal of reducing electric power costs to customers," from both lowering administrative costs and wholesale power costs.

The munis suggested a hybrid board of directors for RTOs with a minority of stakeholder directors elected by a supermajority of the stakeholder sectors.

APPA pointed to ColumbiaGrid in the Northwestern U. S. as an "effective and consumer-friendly" alternative to the use of pricing incentives to manage the power grid.

Shelk, though, argued that APPA's solution "sounds an awful lot like creating an independent coordinator of transmission (ICT), a surprising proposal given the dissatisfaction of leading APPA members with the existing ICT in Entergy's region."

APPA also called for congressional hearings on the functioning of wholesale electricity markets and supported the Consumer Protection and Cost Accountability Act (S. 2660) which would require RTOs to weigh ratepayer costs and perform cost/benefit analyses demonstrating consumer benefits as a result of market changes.