Energy Choice Matters

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PJM Tells Virtual Bidders to Develop New Models

Several financial marketers, “misunderstand the fundamental nature of their role in organized wholesale energy markets,” PJM told FERC in answering a complaint over marginal loss calculation and surpluses filed by Black Oak Energy, EPIC Merchant Energy and SESCO Enterprises (EL08-14).

Referring to virtual (convergence) bidding, PJM explained that financial marketers’ only incentive to participate in PJM markets is to make money based on their analysis of whether there may be differences in the prices, however derived, in the Day-ahead and Real-time Energy Markets.

If there is no difference, or an adverse difference, expected between the day-ahead and real-time price for a particular trade, then participants on a purely financial basis should not make that trade, PJM argued.

“The reason, whether it is Loss Price or the weather in a particular location, is utterly irrelevant,” PJM added.

“What is important is that the prices reflect as closely as possible the marginal cost of serving load at that location,” the RTO said.

“If Financial Marketers are continually losing money trading at certain locations because they repeatedly adopt certain positions at those hubs, then they should cease trading at those hubs, or still better, adopt the opposite positions at those hubs and pocket the difference.,” PJM suggested.

“The lost revenues about which the Financial Marketers complain are not the result of a market defect or an unfair advantage enjoyed by load-serving entities,” PJM claimed.

“They are a consequence of either mistaken expectations about the relative price levels or a failure to respond rationally to correct expectations,” the RTO added.

The fact that using marginal losses, instead of average losses, when determining LMPs has

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Calif. Consumer Groups Slam “Boondoggle” Wealth Transfer to State University

CONTINUING COVERAGE

Misguided. Illegal. Unaccountable. Redundant.

Harsh words used by consumer groups to denounce a proposed “boondoggle” giveaway to the University of California at the expense of IOU ratepayers to fund duplicative and vague climate research (Matters, 2/12/08), as proposed by PUC President Michael Peevey in a draft decision creating the California Institute for Climate Solutions (R. 07-09-008).

The Consumer Federation of California (CFC) sees the proposal as an “unlawful levy” on ratepayers to support an institute which is not required to invest in projects which benefit ratepayers and which will duplicate research of other state agencies acting pursuant to AB 32 (the state’s global warming law).

The 10-year price tag of $600 million is, “significant, if not downright jaw-dropping,” added the Utility Consumers’ Action Network (UCAN).

“$600 million spent on a vague workplan with no CPUC spending oversight, with no mandate to find ratepayer benefit and no statutory direction is nothing less than a boondoggle,” UCAN asserted.

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Stakeholders Unimpressed with Calif. PUC Staff Report on Capacity Markets

It's time for the California PUC to act on competitive retailers' proposal for LSEs to opt-out of the allocation of resource adequacy (RA) credits (and associated costs) under the cost allocation mechanism approved in PUC D.06-07-029, the Alliance for Retail Energy Markets (AReM) told the PUC in comments on a staff report on potential capacity mechanisms (R. 05-12-013).

It has been almost two years since the Commission agreed with AReM that an opt-out process should be addressed and resolved, AReM noted, and retailers want the PUC's Track 2 decision to address the issue.

An opt-out process, along with other improvements to the current bilateral resource adequacy framework such as a standard contract, electronic bulletin board and RA tagging system are needed for 2009 even if the PUC pursues a centralized capacity market, since such a market will take years to build, AReM noted.

AReM disagreed with staff's conclusion that AB 380 directs the PUC to consider a capacity market. Rather, the plain language of the law gives the PUC authority to establish "resource adequacy requirements" for all LSEs, AReM noted.

Constellation Energy Commodities Group objected to the staff's report for ignoring the Commission's stated preference for market solutions, and offering proposals (a Modified Centralized Market and changes to the current bilateral RA program) that would serve to further entrench the Long Term Procurement Proceeding (LTPP) investment paradigm that relies on the issuance of regulatory guarantees to the utilities, either for self-build generation or for long-term contracts with developers -- both directly funded by ratepayers.

The staff's suggestions, Constellation said, move California towards integrated resource planning that is associated with vertically integrated, rate-regulated paradigms that would signal to potential competitive investors that regulatory intervention – and not markets – will continue to be the primary investment paradigm in California.

Constellation wants the ALJ to reject staff's proposals and elevate specific centralized capacity market proposal vetted at stakeholder workshops (one offered by the California Forward Capacity Market Advocates [CFCMA] and Constellation's own California Capacity Infrastructure Model [Cal CIM]).

The Commission should then select one of those proposals to serve as the starting point for the continued evolution the RA program, Constellation said.

Large Calif. Customers Press for TOU Pricing for Small Users

California residential, agricultural and smaller C&I customers should be placed on default Time of Use (TOU) rates as soon as possible, large consumers told the PUC in a docket on the schedule for implementing more extensive dynamic pricing (A. 06-03-005).

The California Large Energy Consumers Association (CLECA) does not see any justification for allowing residential and agricultural customers to opt onto a flat rate once their AB 1X rate protections end.

All residential and agricultural customers should have a TOU default rate once they have interval meters -- just like other groups of customers, CLECA argued.

"The billions of dollars California has invested in interval meters for residential and small and medium agricultural customers will be of little benefit if such customers are permitted to simply elect flat rate service," large consumers noted.

Residential customers represent a large portion of the on-peak air conditioning loads that are driving the need to add new capacity, CLECA reminded. Thus it's, "important to communicate costs through proper price signals" to smaller customers, CLECA added.

"It should be beyond serious dispute that the greatest potential for demand response lies within the residential and small commercial sectors, markets which thus far have been largely insulated from any form of dynamic pricing," the California Manufacturers and Technology Association (CMTA) added.

Both large customer groups urged the PUC to wait on making real-time pricing (RTP) available by Jan. 1, 2010 and the default rate for large C&Is by Jan. 1, 2011. Both groups noted delays in the California ISO's Market Redesign and Technology Upgrade that will impact the ability of utilities to offer real-time rates, since CMTA thinks two full summers of data should be used to implement RTP tariffs. CLECA thinks at least 18 months of experience is needed with the day-ahead market to give customers confidence it is working correctly.

Even if the day-ahead market is running before this summer, customers need real-time access to their usage data for RTP and it's unclear when such access will be readily available, CMTA observed.

CMTA suggested that even when RTP can be implemented in 2012, TOU should remain the default pricing service for large C&Is, with RTP and Critical Peak Pricing options available.

Retailers Want Clarification on Efficiency Mandates in GHG Cap-and-Trade Draft

CONTINUING COVERAGE

The California PUC needs to clarify that electric service providers do not have to meet requirements for energy efficiency proposed in PUC President Michael Peevey's draft decision (R. 06-04-009) creating a greenhouse gas (GHG) cap-and-trade system (Matters, 2/11/08).

The draft suggests making munis and other non-jurisdictional utilities subject to the same efficiency guidelines as IOUs (which would require legislative action), but competitive retailers are concerned about imprecise language which could subject them to the mandates.

Customers of ESPs (competitive retailers) are also IOU distribution customers, Sempra Global and other ESPs pointed out. Therefore their load is already captured in IOU programs targeting PUC mandates for energy efficiency, and ESPs facilitate customer participation in those IOU programs.

Not only would imposing a separate mandate on ESPs be redundant, but it would place ESPs at a competitive disadvantage, since the administrative costs of IOU programs are recovered through ratepayers charges, while ESPs would not have that luxury, Sempra and others noted.

Several ESPs also favored allocating, rather than auctioning, all or part of the initial GHG credits.

Sempra favors allocating the "bulk" of allowances, "in order to avoid threatening reliability or causing whole sectors of the California economy to disappear."

Sempra cautioned that should a market participant become insolvent due to GHG costs, "there could be serious consequences for others in the energy sector as well as for the economy."

Western Power Trading Forum and the Alliance for Retail Energy Markets favor a transition to an auction mechanism since GHG regulation, "could impose significant costs on generators and other affected entities, particularly in the early years of the program."

Southern California Edison and the Independent Energy Producers Association (IEP) opposed the draft's exemption of the natural gas sector from GHG limits as inconsistent with the goal of a multi-sector cap -and-trade mechanism.

Participation by more sectors will drive greater efficiencies and least-cost solutions to GHG reductions, SCE noted, since reductions can be made by the most cost-effective means in any sector and then traded to sectors where emission cuts would cost more.

"Under a market-based system, if the natural gas sector can achieve more cost-effective emissions than those which can be achieved by other options available to other sectors within the same market-based system, it is very likely there will be additional emission reductions in the natural gas sector beyond what would have been achieved under existing programs," SCE noted.

SCE suggested that, "one simple way for entities in the natural gas sector to switch fuel types and reduce direct emissions from natural gas might be to adopt increased level of electrification, which in turn could be obtained from sources that are less GHG intensive than direct combustion of natural gas."

Including the natural gas sector is more fair than, "carving out special rules," for some industries, SCE added, especially since the natural gas sector constitutes a "large" percentage of California's total GHG emissions.

IEP wants the PUC to address situations where a generator has an existing contract with an LSE and the contract provides no means for the generator to recover the costs of newly imposed GHG compliance obligations, because the parties at the time the contract was negotiated did not contemplate that these costs would be imposed on the generator.

Up to 10,000 MW of QF power (cogeneration and renewable) fall under such a scenario, IEP noted.

"Not clearly addressing this issue now would impose a substantial level of unnecessary and unwarranted business risk for resources that play a significant role in (a) maintaining grid reliability, (b) attaining the California RPS, and (c) fostering clean, heat and power operations," IEP said.

IEP also wants generators assigning their environmental attributes such as avoided GHG emissions (as required by IOU RPS solicitations) to the LSEs to not be forced to buy GHG credits for their production of "null power." Making green power plants buy GHG credits because they were forced to assign their avoided GHG emissions to utilities would be contrary to the development of renewable power, IEP said.

Briefly:

Retailers Must Report DC Billing Errors

The District of Columbia PSC adopted final rules for competitive retailers and utilities for service quality and reliability (FC 982, 1002). Retailers and utilities will have to notify the PSC and Office of People's Counsel of billing errors that impact 100 customers or more, or 2% of the retailer's customer base, whichever is less. Such reports would have to be filed within one day of the error being discovered. Retailers with less than 100 customers would have to report billing errors affecting two or more customers. Follow-up reports are required as well.

Wellinghoff Sees One Less Barrier to Demand Resources in MISO ASM

FERC accepted the Midwest ISO's proposal to compensate generation units that are manually redispatched by the ISO (ER08-416 et. al.). Commissioner Jon Wellinghoff concurred with a separate statement, explaining the decision directs MISO, once its ancillary services markets (ASM) begin, to submit tariff revisions that allow certain eligible demand response providers (DRRs-Type II) to receive manual redispatch make-whole payments. That removes one of a "number" of the ASM's barriers to demand response, Wellinghoff said.

BPU Gets Three Wind Bids

Bluewater Wind, Fishermen's Energy and a joint venture between PSEG Renewable Generation and Winergy Power were three bidders in the New Jersey Office of Clean Energy's RFP for a 350-MW offshore wind farm development. The Board of Public Utilities through the clean energy office solicited offshore pilot projects to gain experience with the technology and determine whether future projects should be pursued. The winning project would be paid a production incentive from the state over five years.

EnerNOC to Extend Conn. Contracts

EnerNOC intends to enter into a new contract with Connecticut Light & Power to maintain 170 MW of demand resources it currently has under contract in pacts with CL&P and ISO New England in transmission-constrained Southwest Connecticut. The ISO has chosen not to renew two contracts totaling 85 MW and EnerNOC would redeploy 60 MW of those assets under CL&P's Conservation and Load Management program pending DPUC approval. The demand response provider would also renew a 110-MW deal currently in place with CL&P.

Conn. Generators Detail Peaking Projects

Generators, including the joint venture between United Illuminating and NRG Energy

(GenConn), Connecticut Light & Power, PSEG Power, Maxim Power, Bridgeport Energy and FirstLight Power, hoping to win the right to build new ratepayer-backed peaking projects in Connecticut filed detailed proposals yesterday in DPUC docket 08-01-01 (Matters, 2/4/08).

APX Product to Boost Transparency of Environmental Claims

Sterling Planet became the first company to use APX's Environmental Markets Registry to help clients and end-use customers track, manage and retire environmental commodities for voluntary markets. The tracking system boosts transparency, lowers customer transaction costs and rapidly substantiates environmental claims, APX said.

AARP Carries Water for Anti-Competition Bill in Md.

AARP spent yesterday testifying in support of Maryland's HB 1314, which would end market-based pricing for SOS service for residential and small C&I customers, and order the PSC to provide those customers with service at prices that reflect a reasonable balance of least cost and least volatility. The bill would also let the PSC regulate prices from new utility generation. AARP told lawmakers customers were "struggling with unpredictable, unaffordable utility rates."

Viking Energy Gets Maine ABC License

The Maine PUC granted Viking Energy Management certification as an electric aggregator/broker for large non-residential customers in all utility territories (2008-88).

PJM Marginal Losses … From 1

made once-profitable trades less attractive should not be surprising, PJM said. Nor should it be unexpected that implementation of marginal loss pricing would render analytical models based on an average-loss pricing obsolete.

"Changes in the profitability of trading at certain locations following the implementation of marginal-loss pricing does not indicate that the market is broken; it demonstrates, on the contrary, that the market is working," PJM asserted.

Granting the marketers' request to refund marginal losses paid by virtual transactions would "effectively reinstitute the faulty pricing signals that the costly implementation of marginal losses was undertaken to correct," PJM pointed out.

"Financial Marketers should adapt to the new world rather than seek to reverse it," and undertake a fresh analysis of pricing patterns, PJM said.

PJM also objected to marketers' request to receive a much larger share of surpluses from marginal loss pricing. Using marginal losses to determine LMPs will naturally over-collect for actual line losses since losses rise exponentially as the power flows increase, rendering the cost of the last megawatt higher than the first.

The marketers had argued that they contribute to the fixed costs of the grid as a consequence of engaging in "up to" congestion transactions.

But those deals only account for 10% of financial trading activity, PJM observed. And the remaining 90% of financial trading activity are Increment and Decrement Bids that do not require any supporting transmission and consequent contribution to the fixed costs of the grid, noted PJM.

"The bottom line is that 'up to' transactions pay less than 0.4 percent of the fixed costs of the transmission system, as measured by their transmission charges compared to total transmission charges from June 1, 2007–January 31, 2008," PJM reported.

But if PJM allocated a share of the loss surplus to virtual transactions on the same cleared megawatt-hour basis as load plus exports, PJM would allocate almost 40% of the surplus on the basis of virtual transactions. Such a "disparity" justifies PJM's decision for treating market participants differently, the RTO argued.

GHG Boondoggle … From 1

UCAN is "alarmed" by the "clear illegality" of the institute, comparing it to a failed attempt by the PUC to create an energy efficiency board in the late 1990s which was scrapped because the board would have appropriated ratepayer funds without PUC oversight or approval in violation of state law.

"Utility companies are being directed to serve as collectors of monies from their customers. Those monies are being directed to a non-governmental organization removed from the direct jurisdiction of the CPUC or the state legislature or the utilities for a vague objective of accelerating R&D of potential technologies," UCAN reported.

Southern California Edison is "concerned" that the institute would only be funded by IOU customers yet is intended to benefit all Californians – giving customers of munis and cooperatives a free ride.

SCE also warned that the institute would not transfer intellectual property rights from ratepayer-funded research to customers, one of the only measurable benefits of the program. Instead, the universities will keep any revenues from the licensing of intellectual property.

SCE suggested legislative action to create the institute so it could be funded by all Californians through taxes.

The PUC's Division of Ratepayer Advocates agreed, noting it, "remains concerned that the Commission is considering authorizing electric and natural gas utilities to collect monies from ratepayers and remit them to the University of California ("UC") for research efforts, when the scope of the research is not clear and may extend well beyond issues related to utility service."