Energy Choice Matters

March 7, 2008

MISO "Break-through" to Give Utilities Market Access Without Transfer of Grid Assets

The Midwest ISO asked FERC to approve a "break-through" arrangement that would extend the benefits of the ISO's Energy and Operating Reserve Markets to a potentially large group of new customers while allowing them to remain transmission providers in their own footprints (docket ER08-637).

The so-called Western Markets Proposal will enhance reliability and seams coordination in the Midwest and will allow closer integration of Mid-Continent Area Power Pool (MAPP) members and other utilities and market participants in the region.

The Western Markets plan is MISO's incremental approach to broaden the regional energy market by offering services to transmission providers that are not yet ready to place their facilities under the Midwest ISO's functional control.

Several MAPP parties and other interested entities that are not signatories to the ISO Agreement have concluded that the ISO's Energy and Operating Reserve Markets may provide substantial benefits to them, MISO reported.

MISO's LMP congestion management mechanisms and efficient Security Constrained Economic Dispatch (SCED), "are of particular value to these customers," who currently have to rely on far less efficient Transmission Loading Relief (TLR) procedures to manage congestion, the ISO added.

The three main products to be offered in the Western Markets Proposal are Reliability Coordination Service, Interconnected Operations and Congestion Management Service, and Market Coordination Service.

The proposed Interconnected Operations and Congestion Management Service adds the option

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Load Group Blasts PJM CONE Adjustment As One-Sided

PJM is violating the filed rate doctrine by including proposed, but not yet accepted, Cost of New Entry (CONE) data in postings for its May 2008 Reliability Pricing Model (RPM) auction, a coalition of state regulators, consumer advocates, munis and other load representatives (dubbed RPM Buyers) told FERC (ER08-516).

Less than one year after implementing RPM, PJM has "hastily rushed" to implement new CONE figures despite plans for a comprehensive analysis of RPM by June 30, 2008, claimed the buyers' group which includes the Maryland PSC, Pennsylvania PUC, consumer counsels from Maryland, Ohio, Pennsylvania and Washington, D.C., the PJM Industrial Customer Coalition and American Forest & Paper Association.

PJM's forthcoming analysis is to include a review of RPM's Variable Resource Requirement (VRR) curve and its two key parameters, CONE and the Net Energy and Ancillary Services Revenue Offset (E&AS Offset), RPM Buyers reminded.

RPM's VRR curve is built around an estimate of Net CONE, which is CONE minus the E&AS Offset, or the revenue a generator can get in the PJM energy and ancillary service markets.

But PJM has proposed only updating the CONE figures without adjusting the E&AS Offset,

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Surges and Circuits

A weekly review of what's up and down in energy markets.

Short Circuits

Maryland Electricity Markets (again)

Anyone living through 2006's three-ring circus probably didn't think things could get more surreal, but after a relatively calm 2007, 2008 continues to hit new heights for absurdity with the state and Constellation now suing each other (of course in separate jurisdictions). Wake us when it's over. Meanwhile as the politics play out, major electric dockets at the PSC continue to languish. For example, the Commission had originally indicated an order on Phase I of Case 9117 (SOS procurement and low-income aggregation) would be likely in January, and the calendar now reads March.

Illinois ARES Contracts

We suspect ARES compliance officers had a fun week dissecting CUB's complaint and assertion that termination fees in U.S. Energy Savings' contracts are contrary to Illinois law since, according to CUB, the fees are penalties and not liquidated damages.

California Institute for Climate Solutions

Consumer advocates exposed the proposed institute for what it is: a dubious tax on already-burdened customers to fund questionable research with no regulatory oversight.

California Resource Adequacy

Parties commenting on a staff report are just as far as part as ever on whether a bilateral or centralized capacity approach should be pursued to ensure the state's resource adequacy. Meanwhile, a policy that has broad stakeholder support and, according to proponents, would greatly reform the current system -- a standard capacity contract -- has been punted into Phase II of the PUC's review of interim upgrades to the current local RA system.

CL&P Last Resort Prices to Fall

Last resort service customers at Connecticut Light & Power (500 kW and above) would see on average a 6.4% drop in April through June generation prices under proposed rates filed by the utility with the DPUC (08-03-02).

CL&P attributes the drop, subject to DPUC approval, to a decrease in power supply costs and an over-recovery of 0.070¢/kWh in CL&P's generation service charge for last resort customers.

Last resort prices vary monthly but the weighted average generation service charge will drop from 11.033¢/kWh to 10.066 ¢/kWh, while the bypassable Federally Mandated Congestion Charge will remain at 0.400¢/kWh.

Generation service charges are listed below (for rate classes which include both 500 kW and larger customers, who get last resort service, and smaller customers on standard service, only the last resort prices are listed).

CL&P Proposed Last Resort GSCs

April 1- June 30

Rates 21, 39, 41, 55, 56, 57, 58

April 2008	$0.09972 per kWh
May 2008	$0.09881 per kWh
June 2008	$0.10338 per kWh

Rates 41, 55, 56, 57, 58 list separate on-peak and off-peak charges, but the GSCs are the same for each period as provided in CL&P's tariff sheets.

Briefly:

Long-term Renewable Contracts on RI Lawmakers' Agenda

Rhode Island Senate President Joseph Montalbano, D, wants the state's lone IOU National Grid to enter into long-term contracts for wind power. The legislation would force National Grid to sign 10- to 15-year contracts to obtain 5% of its power from renewable sources.

Text of the bill was not available at press time but published reports indicate the contracts may not be used to set default service prices directly, but instead would list the contract costs as a separate distribution charge or credit. It's unclear whether such a charge would be implemented in a competitively neutral manner. National Grid supports the bill, and environmental backers who largely authored it claim long-term contracts are needed to remove uncertainty for renewable developers.

ERCOT Asks to Raise Nodal Fee

ERCOT has asked the PUCT to raise the nodal surcharge 4¢ to $0.169/MWh because the cost of the new market has risen $56 million to $319 million (docket 35428). Since the current $0.127/MWh surcharge was approved in May, ERCOT has had to raise its cost estimates due to Nodal Protocol Revision Requests and accompanying software changes, schedule delays, and staffing challenges.

The Market Management System has seen its costs rise over $25 million, since it is at the "heart" of the nodal system with components including the Day-Ahead Market, Supplemental Ancillary Services Market, Reliability Unit Commitment, Real-Time Security Constrained Economic Dispatch and Constraint Competitiveness Tests.

For operational simplicity, ERCOT wants the Commission to maintain the allocation formula adopted in docket 32686, which applies the surcharge to QSEs representing generation, though ERCOT stressed it does not take a policy view on cost allocation. ERCOT expects the nodal system to be ready for the Dec. 1 go-live date.

Md. PSC Approves Two Brokers

The Maryland PSC in letter orders granted electric broker licenses to Usource (IR-1160) and ARS International (IR-1181). Usource, a major player in many Northeast markets, will broker deals for C&I customers located in Baltimore Gas & Electric, Delmarva and Allegheny territories. Virginia-based ARS, a start-up not marketing in any other states, intends to broker and aggregate residential customers in all service territories.

DC Gas Migration Flat

Natural gas shopping was flat in the District of Columbia during February with commercial migrated accounts from Washington Gas Light steady at 34% to start March. Residential migrated accounts held at 11% (PSC docket GT96-2)

PPL Unloads Gas LDC

UGI Utilities is buying LDC PPL Gas for $268 million in cash plus working capital. PPL jettisoned the gas unit, which also includes propane marketing, because it accounted for only 1% of yearly earnings and did not fit with PPL's core businesses of power generation, energy marketing and electricity delivery. UGI picks up 76,000 natural gas distribution customers in 35 Pennsylvania and Maryland counties, growing its gas customer base by 15%.

CPS Energy Wants Rate Hike

San Antonio muni CPS Energy has proposed increasing its rates to cover power plant construction, environmental upgrades and energy efficiency rebates. The proposed hikes would cost the average residential customer up to $84/year. According to PUCT data, CPS's rate for a residential customer using 1,000 kWh in January was 7.532¢, so the hike, if approved by the muni's board and city council, would put the average residential rate in the 8¢ range.

World Energy, GSE Team Up

Online energy auction operator World Energy Solutions has entered a channel partnership with GSE Consulting. GSE says partnering with World Energy and using its online platform gives their customers access to more suppliers.

DTE Adding Value Through Efficiency Seminars

Monopoly utility DTE Energy will hold nine energy efficiency seminars in the Detroit metro area on topics including home insulation, energy efficient appliances, geothermal heating and cooling systems and renewable energy.

Oncor Meter Cost Conference Rescheduled

A technical conference scheduled for today to discuss Oncor's proposal (Matters, 2/25/08) to socialize the costs of new meters for customers facing disconnects due to inaccessible meters has been moved to March 20 (docket 35280).

MISO West ... *From 1*

for redispatch of generation by the Midwest ISO or the non-market entity if that is economically superior to curtailment or other redispatch to meet a TLR obligation.

The Market Coordination Service extends the Midwest ISO's Energy and Operating Reserve Markets to the footprints of Market Coordination Customers by allowing them to integrate into the Midwest ISO's Energy and Operating Reserve Markets' resources and loads interconnected with their designated transmission facilities, while retaining functional control of their transmission grid.

To be eligible to receive Market Coordination Service, a customer must be a transmission provider providing transmission service on facilities that are:

(i) interconnected with the facilities of a Transmission Owner;

(ii) interconnected with the facilities of another Market Coordination Customer; or

(iii) interconnected with the facilities of a Congestion Management Customer that offers a transmission service that is adequate to enable the Midwest ISO to provide SCED.

Benefits from the proposal include improved regional reliability; more efficient congestion management procedures; reduced administrative costs for existing MISO stakeholders; increased revenues for Transmission Owners and lesser financial burdens on existing customers; and additional new sources of power and more power supplies for the entire region, including access to lower-cost power.

In particular, managing what was previously a market-to-non-market seam by using the Midwest ISO's Security Constrained Unit Commitment and SCED protocols will reduce the Revenue Sufficiency Guarantee cost of managing congestion, and will be more consistent with cost causation principles, MISO reported.

RPM CONE ... *From 1*

RPM Buyers complained, which, "will result in an excessive Net CONE value that will distort the RPM capacity mechanism."

Such distorted price signals are contrary to the purpose of RPM, the load representatives added.

While PJM wants to raise its CONE estimate, it would leave unchanged the E&AS revenue component, even though net E&AS revenues in the RTO region were $18,453/MW-year in 2007 versus the $13,368/MW-year in the current RPM formula.

And RPM Buyers claim that due to shrinking reserve margins, energy and ancillary service revenues will keep rising, thus increasing the offset in the Net CONE calculation. RPM Buyers think the current RPM prices plus higher energy and ancillary service revenues, "are providing sufficiently high price incentives for new entry in PJM."

Price stability and predictability for market participants are critical for establishing confidence in the forward capacity market, RPM Buyers said. That's why FERC accepted a three-year period for automatic review of CONE data.

"PJM's proposal would directly undermine stability and predictability," RPM Buyers claimed.

"Sudden and dramatic adjustments to CONE in response to short-term volatility in construction costs were addressed in the RPM proceeding, and were generally rejected," buyers reminded.

"Specifically, the Commission rejected arguments that the three-year period upon which the automatic CONE adjustment mechanism is based would delay implementation of accurate CONE values," RPM Buyers pointed out.

RPM Buyers argued that FERC found that the benefits of, "providing stability and predictability to the Variable Resource Requirement curves," outweighed the costs of, "modest delays in fully adjusting Cost of New Entry under the [RPM] settlement."

RPM Buyers also objected to PJM attempting to push new CONE numbers into the May 2008 auction, even though it filed the numbers with FERC well past a Sept. 1, 2007 deadline to do so.

PJM’s tariff provides that members must have a four-month period between September 1 and January 1 to review proposed changes to CONE values, RPM Buyers noted.

“Inadequate notice of a change in CONE may not allow all market participants to react to the change prior to the auction. As a result, it calls into question whether the auction prices will reflect a competitively balanced result,” RPM Buyers argued.