Energy Choice Matters

March 13, 2008

Modest Rises Set for ComEd SOS June 1

Average Commonwealth Edison small commercial bills (under 100 kW) are set to rise 2.7% June 1 after the Illinois Commerce Commission approved ComEd's interim procurement of SOS to be blended with existing supplies.

Commercial customers in the 100-400 kW class will see bills rise on average 3.8% while residential customers will see a 2.5% rise. ComEd stressed that customers don't have to pay the higher rates and can choose an alternate supplier.

ComEd is to file a final blending and reconciliation of the prices with the ICC today. ComEd's procurement, via a competitive RFP, only makes up 14% of ComEd's SOS needs. Some 19% of SOS supply is being met from contracts with Exelon entered into as part of a pact to ease the end of rate caps, while the remainder of power was bought in the 2006 SOS auction that was originally to have created a three-year laddered portfolio -- an idea since abandoned.

The contracts approved by the ICC don't include capacity costs or ancillary service costs that will also increase customer bills, the ICC said. ComEd will still need to buy spot market power during summer peaks, the ICC added.

Winning bidders included American Electric Power Service Corp., Consolidated Edison Energy, Constellation Energy Commodities Group, Edison Mission Marketing & Trading, Exelon Generation, J.P. Morgan Ventures Energy Corp., Morgan Stanley Capital Group, and Sempra

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Critics of Competition May Be Unstoppable, Anderson Warns

Opposition to competitive markets is, "like a steamroller," and supporters of competition may not be able to stop it, ELCON President John Anderson told KEMA's Executive Forum in Frisco, Texas.

Returning to vertically integrated monopolies would be a long, tortuous process than Anderson does not support.

But major reforms, not fine tuning, are needed in FERC-jurisdictional organized markets, Anderson insisted.

Anderson cautioned that ELCON may be one of the only groups opposed to the current RTO framework that is still willing to consider fixes to implement more competition. He's worried other parties, such as APPA, AARP, other industrials and consumer groups may have given up and are satisfied with a return to monopoly regulation.

Vigorous competition in offers hasn't developed, Anderson complained, because generators know their competitors' heat rates and bidding behavior.

Giving demand response the option to truly participate in markets and bid as generation does would throw an unknown into the dispatch process, Anderson argued, and discipline markets.

But RTO governance has blocked parity for demand resources, Anderson claimed, noting the governance process is stacked against load.

How would Anderson fix RTOs?

"Major" demand response participation is needed, he argued, and those resources need to be treated equally with generation.

Market power needs to be addressed as well by making market monitors truly independent.

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Demand Response No Longer Overlooked, Execs Say

Demand response has grown out of being the "second cousin" of energy planning, Comverge CEO Robert Christie told KEMA's Executive Forum.

The progress has come since Comverge and EnerNOC have gone public, he claimed. Their IPOs have given retailers, utilities and investors something to latch onto.

Christie called the ERCOT market "tremendously frustrating" to Comverge and other demand response providers. It's unfortunate because demand response could play a "significant" role in meeting ERCOT's capacity needs given the ability to leverage demand response through REPs, he added.

Christie suggested giving utilities a rate of return on demand resources on top of paying utilities for the avoided costs, noting Nevada has implemented such a policy.

Capacity payments help jumpstart demand response programs among customers that aren't large industrials such as supermarkets, hospitals and even residential customers, EnerNOC President David Brewster explained.

The capacity payments give customers more revenue certainty and greater transparency of what to expect from the program as opposed to some of the energy-only programs available. Often customers will start by participating in a capacity program for transparency, but then branch into other demand resource products as they gain comfort and confidence in the markets.

EnerNOC is also helping its customers procure power and select retail power providers, Brewster added. It also offers assistance with emissions tracking and carbon mitigation.

Chris Hickman, President of Energy Services for Site Controls, noted that RTOs and utilities don't need to struggle to come up with definitions and categories of demand resources. In fact, the definitions are already there – they are the same as those used for generation.

If a demand response product has the characteristics of generation product (energy, ancillary services, etc.), it should be treated and paid in the same manner, Hickman argued.

Hickman worried that the industry isn't talking about the latest NERC reports which show a negative reserve margin in every NERC region next year.

With margins to be negative within a decade, Hickman sees a "real problem," and worried the industry is burying its head in the sand.

Hickman pointed to unattractive options for building new capacity. Obvious political pressures rule out coal, while nuclear takes 10 years to build and the industry is already paying the high price from relying too heavily on gas-fired generation, he observed.

Short-term gains have to come from demand response, energy efficiency and smart grid applications, Hickman concluded, or, "we're in a lot of trouble."

Nodal ERCOT Will Be on Schedule

ERCOT CEO Bob Kahn committed to market participants that he will share with them immediately if ERCOT is forced to delay the scheduled start of the nodal market December 1.

He's confident ERCOT will be ready on time, and he wants to make sure the market works smoothly before lawmakers return to Austin in January 2009 for their next session.

Two big project milestones are the Market Management System due from ABB in April, and a 168-hour test starting September 1, which is to run the nodal system for seven straight days without a significant problem. At the first significant problem, the test will end, the problem will be fixed, and a new 168-hour test will start.

Market participants will have to agree to start the market December 1 even if ERCOT is ready to go, Kahn added. He's not going to start the market if market participants aren't prepared to transact in it.

Although Kahn is confident nodal will be ready for December 1, he reported Jerry Sullivan, ERCOT's director of the nodal project, is only 75-80% confident. Individual project managers always tell Kahn their work will be ready to go, but are worried that other groups won't be ready. Kahn tells them not to worry about the other project groups and focus on their own work.

Kahn also reported that updated ERCOT generation and load forecasts no longer show the ISO dropping below its 12.5% reserve margin in the near future, thanks to new supplies set to come online.

ERCOT Slip Caused Wrong Bid Cap to Be Used

ERCOT applied the incorrect high system-wide offer cap (HCAP) in its Market Clearing Engine (MCE) for six days after failing to sync up its software in a failover test of its Energy and Market Management Systems (EMMS), it told the PUCT in a notice regarding the rules violation (27706).

Only one interval was affected by the software problem on March 8.

As required, ERCOT started using a high cap of $2,250/MWh on March 1.

But on March 4, as ERCOT performed a planned site failover test of EMMS Austin to Taylor, the Scheduling, Pricing, and Dispatch Options file that contains the parameters for the Market Clearing Engine reverted back to the pre-March 1, 2008 values, which include a Balancing Energy Bid Cap of $1,500 and a Shadow Price Cap of $2,500.

The reversion resulted from ERCOT's failure to sync up its software in Austin and Taylor.

ERCOT fixed the problem by March 10 to reflect the proper Balancing Energy Bid Cap of $2,250 and a Shadow Price Cap of $5,600.

ICC Says FERC Must Protect ComEd Customers By Denying Exelon Waiver

The Illinois Commerce Commission wants FERC to deny Exelon waivers from applicable inter-affiliate power sale conditions and codes of conduct, particularly the requirement to separately file affiliated power sales contracts for review.

Exelon had requested a continuation of its current waivers from those rules in its updated market power analysis for affiliates with market-based rate authority (ER00-3251-015 et. al.).

The ICC is worried that granting the waivers would expose Commonwealth Edison customers to possible arrangements that could result in an inappropriate transfer of benefits from ComEd (and its ratepayers) to an affiliated power marketer (and its shareholders).

A lot has changed since FERC last reviewed the waivers in 2000-01, the ICC noted. Rate caps expired only a year ago and the utilities are implementing a new form of SOS (portfolio management) June 1.

"These recent changes, in conjunction with the lack of a long-standing track record, merit retention and application of the full panoply of consumer protection measures," the ICC said.

The ICC views ComEd residential customers as captive, even though they have the right to choose an alternate retail electric supplier. Thus making Exelon follow all the code of conduct and affiliate rules designed to protect captive customers is appropriate. Not a single ComEd residential customer has shopped to date, the ICC pointed out.

In Order 697, FERC defined "captive customers" as, "any wholesale or retail electric energy customers served under cost-based regulation," the ICC noted. It views utility SOS under 220 ILCS 5/16-103 as "cost-based regulation," though the ICC did not elaborate on its justification for that view given that underlying SOS contracts are tied to negotiated or auctioned prices which have no relationship to cost of service. It is true that ComEd must sell SOS at cost and cannot markup its wholesale prices.

ComEd is also a public utility with a franchised service obligation under Illinois law and thus qualifies as a "franchised public utility" as that term is used in Order 697, the ICC argued.

However, in Order 697, FERC stated that the definition of "captive customers" does not include those customers who have retail choice, i.e. the ability to select a retail supplier based on the rates, terms and conditions of service offered.

But FERC should not encourage states to return to cost-of-service regulation by denying retail access states protections from affiliate abuse, the ICC urged.

"Rather than interpreting rules and regulations in ways that encourage state regulatory authorities to return to traditional cost based retail regulation — for example, declining to apply affiliate transaction restrictions and affiliate codes of conduct to wholesale power transactions involving public utilities in retail access states and their market based rate affiliates — it would be more helpful if the Commission were to assist the retail access states in their attempts to make retail competition programs successful," the ICC explained.

Briefly:

PUCT Staff Issues Net Metering Strawman

The PUCT staff posted a net metering and renewable distributed generation strawman rule in project 34890. Under the proposal, REPs serving an independent school district's load would have an obligation to buy all surplus solar electricity produced by the independent school district's solar generation.

Distributed renewable generation owners (DRGO) and independent school districts wishing to sell surplus electricity would sell the surplus to their REP at a mutually agreed upon price. Generation owners or school districts selling surplus power do not automatically transfer the associated RECs to REPs buying the surplus power. DRGOs and school districts can sell RECs to REPs or other qualified REC traders.

In order to ensure that requests for electric service by a DRGO are processed by REPs in a non-discriminatory manner, a REP could not request information on prospective customers regarding ownership of distributed renewable generation prior to or during the processing of requests for service.

No Settlement in Iberdrola-Energy East Review

The second round of settlement talks in Iberdrola's acquisition of Energy East in New York (Matters, 2/26/08) reached the same conclusion as discussions held in the fall, with parties hitting an impasse. Thus evidentiary hearings are set to start March 17 (07-M-0906).

Pact Reached on Dominion Interconnection

Parties have reached a settlement regarding Dominion Resources Services' interconnection request in PJM for an increase in the capacity of its Fairless plant (EL08-36). The Agreement sets forth study procedures for System Impact Studies for certain pending Interconnection Requests in PJM's "R" queue that relate to facilities proposed to be located near a pending project (Q75); procedures for stakeholder processes regarding interconnection studies and queuing, and provisions for the filing of related, proposed modifications of the PJM Tariff; and the capacity interconnection rights of the Fairless facility.

Microfield, CNE End Partnership

Microfield Group's EnergyConnect ended a marketing alliance with Constellation NewEnergy designed to cross market each provider's service. EnergyConnect recently started a partnership with Suez Energy Resources NA in PJM (Matters, 2/13/08).

PSC Updates Lawmakers on Calvert Cliffs

The Maryland PSC updated lawmakers on its fight over the Calvert Cliffs nuclear decommissioning fund, again warning customers could end up paying more than the cost to close the plant, and criticizing a lack of transparency in the funds' accounting. Much of the testimony was similar to what the PSC hashed out at a hearing on Feb. 6 (Matters, 2/7/08), and slides from the PSC are available at http://www.psc.state.md.us/psc/index.htm under the What's New section.

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The market also needs freedom of entry so competitors can respond to high prices and dampen them, Anderson said. But in addition to environmental siting problems, Anderson noted that incumbents hold the easiest sites to add new generation – existing plant locations.

That's a barrier to new entrants.

Federal and state jurisdictional battles need to end, he added, but states are going in the wrong direction by pulling back from competition.

Anderson would also end capacity markets as he believes they are not true markets since administratively set parameters determine prices.

With those reforms completed, Anderson would raise bid caps to induce competition between demand and supply.

But if policymakers continue to only offer tweaks to the system, Anderson told market participants to sit back and watch the consumer "rebellion."

Bryan Lee, Director of Policy Development for Exelon, asked Anderson about the rising cost of steel and other raw materials produced by Anderson's members and how those cost increases compare with electricity, though Lee did not get a specific reply.

Lee noted that the PJM Market Monitor's recent state of the markets report (Matters, 3/12/08) found some generators were still not recovering their costs.

Contrary to the popular belief that gas is on the margin most of the time in PJM, coal-fired plants set the margin 70% of the time, the monitor's report found. Bilateral contracting accounts for 96% of real-time load in PJM, Lee added.

Anderson, though, complained that bilaterals are tied to LMPs and wasn't convinced of PJM's efforts to boost bilateral contracting. Its long-term contracting forums will probably only produce a shiny book that gathers a lot of dust on a shelf, Anderson said.

Mark Radtke, President of Integrys Energy Services, noted that in the mid-1990s, when Wisconsin was racing California to be the first state to open its retail market, policymakers ultimately rejected choice because they were afraid Wisconsin's cheaper power would be exported to Illinois, where power prices were 50% higher.

But now Illinois, which has opened its markets to competition, has prices 13% lower than Wisconsin, which kept monopoly regulation, Radtke reported.

Bill Massey, former FERC Commissioner and now partner at Covington & Burling, complained that customers have been "fooled" by rate caps into thinking prices for power will never change even as fuel and input costs rise. There is no free lunch, he added.

Although Southern Company doesn't offer competition either, Anderson's members like Southern better than PJM because at least Southern takes them to golf once a year.

Although no monopoly states are moving to open their electric markets, competitive firms are infiltrating vertically integrated areas, Constellation NewEnergy Vice President for Renewables Carrie Cullen Hitt said.

They're doing so by offering a wide array of services other than energy commodities, including RECs, carbon offsets, demand response and energy efficiency and management.

On-site, behind-the-meter generation has, "really taken off" among large customers, Cullen Hitt said. Every day she gets a phone call from a customer asking about on-site generation or a PPA with a specific generating unit.

ComEd SOS … From 1

Energy Trading.

The load weighted average of the winning bid prices for each contract type and for each contract term are:

	($/MWh)	
	Avg On Peak	Avg Off Peak
June 2008	81.13	42.15
July 2008	94.92	47.46
August 2008	94.64	47.46
September 2008	76.80	42.65
October 2008	76.01	43.70
November 2008	74.89	44.31
December 2008	74.71	44.28
January 2009	79.76	49.32
February 2009	79.72	48.99
March 2009	76.15	44.60
April 2009	77.50	44.64
May 2009	75.70	42.99

The blended prices will last through June 1, 2009.