Energy Choice Matters

April 9, 2008

Reliant Formally Announces N.Y. Entry; Marketing to Customers as Small as 100 kW

Reliant Energy formally announced what's been known in the retail community for some time; it's entering the New York market to sell to large and medium C&Is (Matters, 2/27/08).

With the groundwork laid last year, Reliant is offering electricity products to commercial, industrial, government and institutional clients with demands of at least 100 kW per month.

Plans to serve smaller C&Is are "in development," Reliant said, and the retailer previously said a decision on the mass market (presumably including residential customers) would come later this year. Reliant also intends to open an Albany office.

New York represents a departure for Reliant, which, outside of its Texas home base, has focused on PJM where it owns considerable generation. New York is also a much more mature market than other territories, such as Illinois and Delaware, Reliant entered last year.

Still, Reliant is looking for more stable revenue streams from new large C&I markets to offset churn in its ERCOT mass market business, which saw a net of 71,000 residential customers leave the retailer last year. Reliant is banking on the New York large commercial business bringing consistent revenues to offset the more volatile ERCOT marketplace.

Expect New York to serve as a launching pad for Reliant's entry into the New England market as well, at least in the states with better-functioning markets such as Connecticut or Massachusetts. As a boost in its regulatory staff covering the New York market last year portended its entry into the Empire State, Reliant had recently been looking to fill a business development and regulatory-type role for the Northeast and New England region.

Initially, Reliant will limit its New York marketing to customers in the Consolidated Edison, National Grid, NYSEG and Rochester Gas and Electric territories. It's been certified to serve all

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DPUC Staff Favors PSEG, GenConn Peakers

The Connecticut DPUC should approve PSEG Power's proposed peaker in New Haven and GenConn's Option 2 (the joint venture of United Illuminating and NRG Energy), which consists of four units at NRG's Devon plant in Milford and two units at NRG's Middletown plant, when handing out ratepayer-backed contracts for new peaking supplies, the Department's prosecutorial unit argued in testimony (08-01-01).

Up for grabs is the right to build new ratepayer-backed peaking generation as set in Section 50 of Public Act 07-242 (Matters, 3/5/08).

Prosecutorial staff's recommendations total 532 MW of average annual installed capacity. Staff urged a conservative approach to additional procurement to avoid the greater potential of stranded costs.

The, "likelihood of full integration of demand resources in the wholesale markets, and in the forward reserves market in particular, suggests that the Department should be conservative regarding new entry," staff concluded.

Potential transmission improvements that alleviate congestion between Connecticut and the Rest of System in ISO New England may reduce the locational reserve requirements in the state as well.

"Analysis conducted to date indicates that the target quantity of peaking capacity of roughly

... Continued Page 4

Maine Opens New Docket on ISO Participation

The Maine PUC opened an investigation (2008-156) of the state's electric utilities' continued participation in ISO New England and the New England Regional Transmission Organization pursuant to the provisions of 35-A M.R.S.A. §1303 and previous PUC orders.

In a final report to lawmakers on RTO participation, the PUC concluded in January that, "the New England Regional Transmission Organization and wholesale market, in their current forms, expose Maine consumers to high, and in some cases, inequitable costs and a resource mix dominated by natural gas and other fossil fuels."

The PUC suggested the following options to legislators: market reforms within ISO-NE; an independent Maine Independent Transmission Company (ITC); or a newly formed Maine/Canadian system.

Each of the three options would result in a better outcome for consumers than the status quo, the PUC had determined.

Petitions to intervene are due April 18. An initial conference has been set for April 29.

N.Y. ALJ Finds Iberdrola Future Ripe for Briefs

With rumors circulating regarding Iberdrola's potential acquisition, which itself has petitioned the PSC to buy Energy East, "the mere possibility of such transactions raises legitimate, immediate questions," despite the absence of a specific scenario involving known future transactions affecting the Energy East assets, an ALJ ruled in clarifying how parties should address the issue in post-hearing briefs (07-M-0906).

Such questions include:

(1) whether the Commission's approval of the proposed acquisition in the merger case would diminish its regulatory authority over Energy East with respect to future transactions;

(2) if so, whether such long-range effects on the Commission's authority would have public interest implications; and

(3) whether the Commission should address such implications, if any, by adopting protective measures or conditions as part of the decision in the merger case if the petition is approved.

In the ALJ's view, "the answers to questions (1) and (2) are essential if the Commission is to fully understand the nature and consequences of the approval sought by petitioners Iberdrola et al. in the present case, and the extent to which such approval in this case would bind Iberdrola's successors in interest with respect to Energy East."

However, those questions have yet to be argued explicitly.

Although parties have debated in the record on whether any takeover of Iberdrola itself is imminent, "a material issue is the impact of the proposed Energy East acquisition upon the Commission's authority in subsequent transactions involving Iberdrola's assets, regardless of whether such a transaction can be expected in the near future," the ALJ concluded.

PSE&G Solar Pilot Gets BPU OK

The New Jersey BPU approved Public Service Electric and Gas's $105 million solar loan pilot program that's to install 30 MW of distributed photovoltaic solar power at homes, businesses and municipal buildings in PSE&G's footprint.

The loans would cover about 40-60% of the total costs of solar installations. Customers would have to pay the remainder, perhaps aided by federal tax incentives.

Customers are to repay the loans over 10-15 years by transferring the solar RECs (SRECs) from the panels to PSE&G.

The cost of the program will be recovered through a new charge on PSE&G's electric delivery tariff called the Solar Pilot Recovery Charge (SPRC). PSE&G will sell the SRECs through periodic auctions that are held at least annually, and will credit the net proceeds of all program SRECs sold to the SPRC to offset the costs of the program.

The pilot is designed to fulfill approximately half of PSE&G's estimated 57 MW of RPS requirements for 2009 and 2010.

Although PSE&G eventually intends to offer the program to residential customers, it needs approval from the state's Department of Banking and Insurance to provide direct loans to residential customers.

For residential customers, a pilot applicant must submit to a credit check and have an Experian FICO score of at least 720. Applicants can have no bankruptcy filings within the last three years and must also be in good standing with respect to payment of energy bills. In addition, there must be no liens, other than mortgages or home equity loans, on the property where the solar equipment will be installed.

The pilot is part of PSE&G's energy efficient and renewable efforts which include a proposed carbon abatement pilot program that would provide value-adding energy-saving measures such as home energy audits, programmable thermostats, attic insulation and high-efficiency lighting upgrades to residential and business customers.

Briefly:

MPS SOS Rates Get Higher Capacity Adder

The Maine PUC approved a Maine Public Service SOS capacity price adder of $0.002885/kWh effective April 9 through February 2009 (2006-513). That's $0.000885/kWh higher than the interim adder the PUC had allowed to be included in SOS rates.

Execs Divided on Future of Competition

Utility executives are split on where deregulation is headed, a survey by Platts and Capgemini found. A survey of 100 executives at U. S. and Canadian electric and natural gas utilities revealed 38% of executives think there will be a movement away from deregulation in the next five to 10 years. Some 27% believe retail competition will continue to grow while the remaining 35% expect competition to stay the same. Nearly a third of participating executives strongly agreed that new generation capacity is essential to meet future energy demands but few executives believed there will be resolution on how to finance new generation capacity. Not surprisingly, environmental considerations and technology were picked widely by executives as their top concerns and focus.

NSTAR Service to Marshfield Won't Be So Basic

NSTAR is launching a $4 million pilot in Marshfield, Mass., combining targeted energy efficiency efforts with small renewable generation and demand response systems designed to achieve zero load growth in the town. In what is being called the Marshfield Energy Challenge, NSTAR will provide value-adding energy efficiency services to 1,200 homes and 100 businesses in the town, and will install solar panels on 30 homes and businesses. NSTAR will also use 500 direct-load-control thermostats to help manage peak load growth on hot summer days. The Massachusetts Technology Collaborative is co-sponsoring the project.

Second Conference Set for N.Y. UBPs

The New York PSC staff has set a second technical conference on April 28 in New York City to discuss proposed modifications to the Uniform Business Practices (Matters, 3/20/08) and questions concerning ESCOs (07-M-1514 et. al.).

CL&P Customer Focus Group Footage Available

Connecticut Light & Power submitted to the DPUC footage from focus group sessions with residential and C&I customers in docket 05-10-03RE01, Application of The Connecticut Light and Power Company to Implement Time-of-use, Interruptible or Load Response, and Seasonal Rates – Review of Metering Plan. CL&P has been conducting a time-based rate pilot in conjunction with its advanced metering plans to observe customer behavior under various rate options. Because footage of the focus group sessions is electronic, CL&P only served copies on the Department, and told the DPUC that copies for other parties can be made upon request.

Reliant N. Y. ... From 1

New York ISO zones except Zone K.

Its New York service line-up includes commodity supply, risk management, demand response and Green-E RECs.

The 100 kW cutoff is a bit lower than what

Reliant had typically targeted in its PJM markets, where it has been soliciting customers with demands 300 kW and higher, although there has not been a hard and fast rule.

Conn. Peakers ... *From 1*

500 MW is best. Nevertheless, [staff] cannot yet reject the possibility that there may continue to be incremental benefits associated with additional entry. To assure avoidance of a repeat of the prior wave of stranded cost liabilities associated with divestiture in the 1990s, [staff] asserts that any incremental benefits must be large and robust in relation to the capital commitment underling the balance sheet strength of the EDCs to justify an additional long-term obligation."

Staff suggested that additional analysis be undertaken to determine if the addition of Connecticut Light & Power's Lebanon project or GenConn's Montville project (Option 1) would provide sufficient incremental benefits to warrant selection.

The prosecutorial unit also favors further analysis to determine the appropriate level of administrative and general expenses to include in the CL&P projects in order to refine the calculation of total net benefits, and also to assess the robustness of the expected net benefits from Connecticut ratepayers' standpoint.

Staff noted its findings may change based on the cost of electric system upgrades required by ISO New England which could, "materially increase the all-in capital cost of a project."

"It is possible that incremental capital expenditures to cover transmission upgrades required by ISO-NE could alter the rank ordering of projects as well as reduce or eliminate the net benefits ascribable to an incremental project," staff cautioned.

The Office of Consumers Counsel favors 681 MW of summer capacity made up of 188 MW from GenConn at Devon under proposed Option 4, 133 MW from PSEG at New Haven Harbor, and 360 MW from Bridgeport Energy II in Bridgeport.

All other proposals, including those from Connecticut Light & Power, should be rejected, the OCC's analysts argued.

The combination of PSEG and GenConn Option 4 is slightly less expensive per kW than the larger GenConn Option 2, the OCC explained. OCC expects the forward-reserve and uplift benefits to ratepayers to decline as the portfolio grows in size.

The OCC continues to review and analyze the available data and may update its recommendations in the course of the DPUC's hearings.

"While we selected PSEG over GenConn's Middletown proposal, the Department might reasonably choose the larger Middletown plant, depending on its assessment of the incremental benefits of additional capacity and hard-to-analyze benefits," the OCC noted.

"Alternatively, adding Middletown to our recommended portfolio would only slightly change our expected net benefits to ratepayers, but would result in a rather large supply commitment in this process and increase the risk of purchasing more capacity than will ultimately be cost-effective," the OCC cautioned.

The remaining proposals are all more expensive than the recommended proposals and GenConn's Middletown proposal, the OCC explained, adding that, "the benefits to Connecticut consumers decline rapidly for purchases over 700 MW."

Although GenConn's Montville project and CL&P's Lebanon project are the next least expensive, they are both oil-only plants, which are not likely to generate any energy margin under normal conditions and would offer less shelter from energy-price spikes that may result from outages of major Connecticut generators (especially Millstone) or transmission lines, the OCC reasoned.

The DPUC should retain the right to compel approved projects to engage in specific strategies for participating in ISO-NE wholesale markets, particularly with regard to the choice of bidding into locational-forward-reserve-market (LFRM) or participating in the energy market, the choice of bidding into the ten-minute or thirty-minute LFRM if participating in LFRM, and the setting of the bid price for each market, the OCC urged.

The projects should be required to pursue a prudent strategy of maximizing revenues at reasonable levels of risk, with the understanding that ratepayers will bear the costs and benefits of that strategy.