Energy Choice Matters
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Pennsylvania PUC Thinks FERC Incremental Approach Could Damage Markets' Viability

FERC's incremental approach to wholesale market reform (Matters, 4/21/08) carries a "serious risk" that the, "approach will delay comprehensive long term planning and fundamental market reform until it is too late to assure the long term viability of competitive wholesale markets in the United States," the Pennsylvania PUC warned in comments on FERC's wholesale market NOPR (AD07-7 et. al.).

"Reliance on ad hoc fixes and the convening of regional forums and technical conferences in Washington will not be adequate to achieve the comprehensive review and reform of market design that is needed," Pennsylvania regulators argued.

In particular, the PUC raised concerns about FERC's proposal to remove in some instances RTO bid caps before demand response is fully integrated into wholesale and retail markets.

"'Organized market' design will not define a fully competitive electric generation market as long as major elements of the basic market model are dictated by administrative fiat and thinly disguised private ratemaking such as mandatory capacity obligations and 'reliability must run' contracts," the PUC asserted.

"As long as generation, particularly peak load generation, is insulated from market risk by the guaranteed receipt of revenues through capacity charge revenues or RMR deals with RTOs, the public will continue to be exposed to substantial risk from the effects of economic and physical withholding of generation facilities and generation owner bidding that extracts supra-marginal revenues because generation is undisciplined by effective demand response. In colloquial terms, 'fixing' price caps first before fully implementing demand response puts the horse behind the cart," the PUC explained.

FERC, "is creating a predictable risk that it will be encouraging the formation of market power,

... Continued Page 3

Maryland PSC Says New PJM Reserve Product Would Raise Prices

The Maryland PSC wants FERC to reject as proposed PJM's Day-Ahead Scheduling Reserves (DASR) product because it could lead to higher prices (ER08-780).

PJM proposed creating DASR as a new subset of operating reserves, a 30-minute reserve product procured through a single clearing price market. LSEs would bear DASR costs according to their load share ratios, and credit would be given if the LSEs can satisfy their DASR requirements under bilateral contracts.

The DASR resulted from the requirement to introduce a market-based procurement mechanism for supplemental reserves in the RPM settlement.

But the DASR, as proposed, involves a new commitment methodology that will result in PJM committing less intermediate generation to the day-ahead operating reserves than is committed today, the PSC explained.

"This is significant because intermediate generation, which in many cases now sets the incremental energy price for locational marginal pricing, would be displaced with higher incremental cost quick-start generation. The result will be substantially higher LMPs with no assurance that this will lead to a lowering of prices in the future," the PSC cautioned.

... Continued Page 4

Pepco, Delmarva File Proposed Small Customer SOS Rates

Pepco and Delmarva filed their proposed residential and Type I SOS rates to take effect June 1 for approval by the Maryland PSC.

Pepco:

GSC	June-Sept. '08 ($/kwh)
Residential (R)	$.11268
Time Metered Residential (R-TM)	
On Peak	$.13252
Intermediate	$.11314
Off Peak	$.10015
Type I	$.12750

Delmarva:

Rate	June-Sept. '08 ($/kwh)
Residential (R, R-TOU-ND)	$.110870
Type I*	$.118096

*Separately metered space heating or water heating Type I customers have a different rate.

Maryland OPC Questions BGE Peak Pricing Pilot

Baltimore Gas and Electric's residential peak pricing pilot may not produce statistically significant results, the Maryland Office of People's Counsel told the PSC (Matters, 4/1/08).

BGE would include 125 customers in each subset of the pilot, but OPC doubts such small sample sizes will provide meaningful information to the Commission.

OPC also questioned the wisdom of BGE's appreciation payments ranging from $100-150, since OPC believes that it is unlikely that those appreciation payments will be greater than the savings that the customer achieves from the pricing approach.

If that is the case, the proposed pilot will not shed any light on the portion of customers who subscribe to such a pricing approach in the absence of any appreciation payment, OPC explained.

OPC argued that advanced metering infrastructure for all residential customers may not be the most cost-effective means to reduce load, and noted PECO is introducing a dynamic pricing pilot with older (and thus cheaper) automated meter reading (AMR) technology).

OPC believes direct load control, which would not require dynamic pricing for all customers, may be the most cost effective means of cutting energy use, and thus wide-scale advanced metering implementation may be premature.

Briefly:

Michigan PSC Staff Document Alleged Tariff Violations by Universal

The Michigan PSC staff alleged that Universal Gas & Electric violated the customer choice tariff requirement to send customers confirmation letters within seven days of switching on at least 1,000 occasions (U-15509, Matters, 3/27/08). That's a preliminary number based on reviewing only half of the reports in staff's limited database, which only contains complaints. Staff has asked Universal for its complete records, including customers who have not complained, to determine a total number of customers who may have not received their confirmation letter in a timely fashion. Universal chose not to accept staff's recommendation that Universal voluntarily stop marketing while the PSC conducts its investigation, reporting such a suspension would have, "resulted in a loss of livelihood for 46 Michigan agents." Universal also claimed that its corrective measures are working, reporting that since February 28 it has only received seven customer contacts from "current marketing efforts."

Reliant Again Marketing Summer Savings

Reliant Energy launched a new two-year product that includes a discount during this summer to entice new enrollments. Summer savings is not a novel concept for Reliant or other REPs in Texas. Prior to the final summer of the price to bear regime (2006), Reliant and TXU Energy launched fixed, term-length products offering additional summer savings through discounts or rebates. Reliant's latest tweak is giving customers choosing Reliant's Secure Savings 24 plan before May 29 a 10% summer discount through Sept. 22 off the contract rate. Monday evening Reliant's Secure Savings 24 was priced in the Oncor area at 12.4¢/kwh as listed on the Power to Choose website, with a lower rate of 12.1¢ possible for new Reliant customers if customers enroll online. In the CenterPoint area, Secure Savings 24 was quoted at 13.5¢/kwh with 13.2¢ for new customers enrolling online. Secure Savings 24, as offered on Power to Choose, includes a $295 termination fee.

Conn. OCC Worried About Another CL&P Billing Issue

The Connecticut Office of Consumer Counsel seized on a compliance filing made by Connecticut Light and Power on its smart meter pilot to raise another red flag regarding CL&P's billing problems (05-10-03RE01). CL&P, which did not issue bills to some 2,000 time-of-use customers for several months earlier this year (Matters, 4/21/08), told the DPUC that 240 customers in its smart meter pilot received an estimated bill rather than a bill based on their actual usage due to a "billing process gap." The OCC demanded a more detailed explanation of the problem, and urged the DPUC to direct CL&P to compare it to the problems which caused the billing errors earlier this year. OCC requested more info to gauge, "the likelihood of further CL&P system problems that affect time-of-use billing."

Parties Agree on ERCOT Nodal Fee

All parties have agreed to support or not oppose a stipulation agreement that would let ERCOT raise the nodal market implementation surcharge to $0.169/MWh starting June 1 (35428). The fee is to be collected in the current manner, from QSEs representing generation. The PUCT must still OK the pact.

FERC NOPR ... From 1

economic and physical withholding opportunities and widespread rules gaming by pulling price caps before demand response is fully effective, a result that cannot be labeled 'just and reasonable,'" the PUC claimed.

FERC is "over-relying" on the assumption that removing bid caps will encourage demand response to appear, while ignoring generators' efforts to block demand response, the PUC alleged.

APPA chided FERC for passing its jurisdictional responsibility to investigate APPA's and other end users' claims that RTOs are producing allegedly unjust and unreasonable rates to, "the very regulated public utilities whose rates and operations are at issue."

The muni group reiterated its claim that day-2 RTOs are permitting generators to earn supra-competitive profits while giving them few economic incentives to contract forward for substantial periods, and many economic incentives to avoid doing so.

APPA cited its latest study, an examination of long-term contracting by Synapse Energy Economics, which confirmed the usual complaints from end users, such as the risk asymmetry in centralized RTO markets. Buyers face greater risks than sellers in waiting to transact in RTO spot markets, APPA argued, so sellers can charge a premium for bilateral contracts.

"Until the Commission examines and deals with the fundamental features of RTO-run centralized markets that disincent sellers from entering into long-term bilateral contracts, the Commission will continue to have little ability positively to influence such contracting," APPA argued.

Marginal loss pricing is inhibiting long-term contracting, and FERC needs to provide customers with a hedge against marginal losses, the Large Public Power Council reported.

Transmission cost volatility is a substantial barrier to long-term contracting and much of the volatility stems from the enormous and unpredictable potential impact of the imposition of marginal losses on the price of delivered power, the large munis told FERC.

The, "destructive impact of these charges on the market for long-term bilateral supply has been inadequately appreciated," LPPC argued,

Xcel Energy cautioned that prices should not be required for the proposed long-term contract bulletin board administered by RTOs, since including a price could skew the negotiation process and discourage market participants from using the bulletin board, frustrating the Commission's intent to promote long-term contracting.

NSTAR also noted that pricing data on the bulletin boards could have an effect on market prices, and urged FERC to ensure the bulletin boards do not become a means to influence power prices.

The Midwest ISO Transmission Owners suggested that RTOs implement a voting structure that provides transmission owners with votes commensurate with the costs that they will be required to bear with regard to major proposed expenditures.

"It is unreasonable for entities that will not be paying or will pay only small amounts to have the same or even greater voting rights on such matters than those that will be paying," the MISO grid owners argued. The MISO transmission owners cited past occasions where those who would ultimately pay for expenditures have suggested lower-cost solutions but have had, "no real means of influencing the Midwest ISO to adopt the lower cost alternative."

APPA thinks the NOPR's proposals for increasing RTO responsiveness to customers have been diluted, in the name of flexibility, to the point where RTOs will be able to claim their current procedures meet the standards and thus, "little positive change will in fact occur."

Wal-Mart, while recognizing FERC's jurisdiction does not cover metering, took the opportunity to champion competitive metering as needed for robust demand response.

"Wal-Mart's experience has been that in certain instances utilities can make it difficult, or unnecessarily expensive, for retail customers to install advanced meters or otherwise maintain their own meter data necessary to participate fully in competitive markets or demand response programs. Customers should be able to choose and invest in the meter of their choice. With choice of meters, customers can better monitor and manage their own energy usage and participate more meaningfully in demand responsive programs," Wal-Mart explained.

States that provide customers an option to purchase or own the meters enable the customer to retain tax depreciation benefits of their own meters and secure a meter that uniquely fits their business need, without paying additional charges in bills or through rates as ROE on utility-owned meters," Wal-Mart noted.

"Additionally, customers should not have to pay for the utility's installation of meters where that might not provide the best economic benefit for all ratepayers," Wal-Mart suggested.

PJM DASR *... From 1*

The PSC views the proposed methodology as, "unjust and unreasonable because it excludes from commitment lower-priced intermediate generation and instead favors high-cost peaking generators when lower-priced generators would achieve the same result at a lower overall cost."

"Not only will this higher-priced energy cost ratepayers more in the short run through higher LMPs, but also the higher costs will no doubt quickly be reflected in forward markets and standard offer service auctions, which many states, including Maryland, use to procure energy," the PSC observed.

DASR providers should also be subject to penalties for non-performance, since PJM will incur additional real-time balancing operating reserve charges when bidders fail to perform. The penalties for non-performance should be similar to those for non-performance in the Synchronized Reserve Market, the PSC suggested.

The PSC urged a thorough review of the DASR mechanism, noting that while a proposal is required under the RPM pact, "there is no urgency to have the DASR market operational until all concerns are satisfactorily addressed."