Energy Choice Matters
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C&Is Opting For Shorter Deals, Constellation Reports

Commercial and industrial customers are eschewing long-term, fixed-price contracts in favor of monthly deals, Constellation Energy revealed in reporting a 25% decrease in first quarter earnings.

Although Constellation expects the trend towards monthly contracts to reverse, it may take a supply shock event to shift buying patterns away from short-term deals which Constellation called riskier for the buyer.

Although win rates, renewal rates and unit margins remain steady, decreased demand for fixed-price products has effectively limited the market size in the near term, Constellation noted.

Given recent heat rate compression, Constellation suggested that signing long-term fixed-price contracts may be more advantageous to customers.

Forward heat rates have departed dramatically from their increasing trends, without a weather shock or change to the reserve margin situation, Constellation added.

Constellation attributed the heat rate change to temporary trading market dynamics, as many traders are decreasing exposure to power products. In response to an analyst's question, while Constellation conceded the presence of PJM's RPM capacity market could in theory lead to lower heat rates over time, Constellation dismissed RPM as the driving force behind the sharp decline in heat rates during the first quarter.

Constellation's first quarter earnings were $145.7 million versus $197.3 million in the year-ago quarter.

The customer supply unit lost 2¢/share, primarily due to lower wholesale backlog and reduced retail power margins, offset by an increase in retail gas margins.

Gross margin for the unit was $82 million, down $23 million from a year ago.

Constellation's retail power retention rate was 53%, relatively flat versus a year ago. But when including customers opting for month-to-month contracts after their long-term deal expires, retention rises to 75%, up from 69% last year. Retail gas reported 98% retention and a 4¢/dkt improvement in realized margins compared with a year ago.

Vectren to Become Second Ohio LDC to Exit Merchant Function

PUCO approved Vectren Energy Delivery's first two steps to exit the merchant function, setting a transition to eliminate the gas cost recovery rate and institute a market-based rate for commodity supply (07-1285-GA-EXM).

Half of Vectren's annual commodity load is comprised of non-utility sales service, and its transition to exit the merchant function mirrors the successful process undertaken by Dominion East Ohio.

Vectren is to conduct a descending clock auction for the establishment of a standard service offer (SSO) natural gas cost rate this summer. The SSO, a market-based and formula-derived standard rate, will replace the company's gas cost recovery rate.

In February 2009, Vectren will conduct another descending clock auction of its commodity supply requirements to establish a standard choice offer (SCO) service that will be implemented on April 1, 2009.

Under that proceeding, the loads of all former SSO service customers, except for percentage of

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Large Customers Oppose SCE Solar Proposal

A request from Southern California Edison to spend over $1 billion to install 250 MW of utility-owned solar photovoltaic generation on commercial building rooftops should be rejected, the California Large Energy Consumers Association (CLECA) argued (A 08-03-015).

The cost per megawatt of PV installed under SCE's proposed program is to be lower than the average cost of PV installed under California Solar Initiative (CSI) incentives, but considerably higher than the current wholesale market price of electricity and also potentially higher than the cost of electricity from other alternative renewable energy projects that may be available to SCE through a more open competitive procurement process, CLECA explained.

SCE proposed including the capital costs of the program in its ratebase and earning 8.75% on the investment, its last authorized rate of return plus an additional 1.0%, CLECA calculated.

SCE also proposed including above-market costs in the cost responsibility surcharge (CRS) imposed on direct access, departing load and community choice aggregation customers, CLECA noted.

CLECA is not convinced that use of $1 billion of SCE ratepayer funds is the best means of stimulating the market for PV systems between 1 and 2 MW of capacity, which are too big for CSI incentives.

Although SCE's costs are lower than CSI costs, the CSI serves purposes distinctly different than utility procurement and cannot serve as a measure of reasonableness for utility procurement, CLECA argued.

"As a result, the mere fact that SCE's proposed program may achieve cost savings relative to the CSI, even potentially significant cost-savings, by no means establishes that the costs are just and reasonable," CLECA observed.

The Independent Energy Producers Association (IEP) suggested SCE should be required to conduct a competitive RFO for any such solar program, and let the bids submitted in the competitive solicitation determine the least-cost projects available against which the SCE Solar PV Program may be compared.

IEP calculated a nearly 350% difference in the price that is deemed reasonable for IPP developers subject to the RPS and the price that SCE is asking the Commission to deem reasonable for utility-owned development.

Universal Says Customers Do Not Enter Agreement When Signing Enrollment Form

Customers signing an enrollment form with Universal Gas and Electric do not actually enter into an agreement with the competitive gas supplier, Universal told the Michigan PSC (Matters, 4/22/08).

Universal was defending the length of time it took to send confirmation letters to customers regarding enrollment (U-15509).

Previously, Universal had reported that the average period it took to send confirmation letters to customers for a seven month period was longer than the required seven-day mandate.

However, Universal reviewed the relevant MichCon tariff language and argued that it did not violate the tariff, because the tariff states, "A Supplier must send a confirmation letter to a customer within seven (7) days of the customer entering into an agreement with the Supplier. The confirmation letter must include any safety related messages required by the Company [LDC]. The Company is not required to send letters to customers confirming a customer's choice of an alternative Supplier."

"By signing the enrollment form, the customer does not enter into an agreement with UGE," Universal claimed, and thus that is not when the seven-day period for sending the confirmation letter starts.

The enrollment form clearly states that the contract remains subject to approval and acceptance from Universal, Universal explained. Since Universal does not accept the contract until Universal verifies the customer is eligible for its product (such as verifying the customer does not have arrears with the utility), Universal asserted that the customer has not entered into an agreement until Universal and the utility have accepted the enrollment and a 30-day cancellation period expires.

Under this definition, Universal reported that it has mailed all customer notifications within the seven-day deadline.

"The tariff should not be interpreted to require that letters be sent to customers to confirm a switch to an alternate gas supplier before it is known whether the customer will in fact be switched to the supplier," Universal argued.

The relevant tariff, however, regards confirmation a customer's "choice" of supplier, not confirmation of a "switch."

While Universal believes no tariff violation occurred under its interpretation, it did report over 45,000 confirmation letters went out more than seven days after a customer signed an enrollment form.

Reliant, Dynegy Ask for Rehearing of MISO Reactive Power Order

Reliant Energy and Dynegy asked FERC for rehearing of the Commission's decision to accept the Midwest ISO Transmission Owners' proposal to amend Schedule 2 of the MISO Open Access Transmission and Energy Markets Tariff by adding Schedule 2-A, which would allow transmission owners to choose whether to compensate unaffiliated generators for Reactive Supply Service under Schedule 2 (on a capability basis) or Schedule 2-A (only for the provision of reactive power outside the deadband).

Although FERC accepted the filing by reasoning that the functional unbundling requirement of Order No. 888 was modified in Order No. 2003 (ER08-15), Reliant argued that there is no reference whatsoever to the unbundling requirement in any of the Order No. 2003 orders (Matters, 2/22/08).

"The Commission cannot now reinterpret the intent of Order No. 2003 to have addressed issues that were never identified or adjudicated at the time," Reliant observed.

Order No. 2003 merely established the basis for compensating suppliers of Reactive Supply Service, and did not otherwise modify the core unbundling requirements of Order No. 888, Reliant noted.

The consequence of Order No. 2003's new policy is reflected solely in the magnitude of the charge for Reactive Supply Service that is set forth in the applicable OATT, Reliant reported. Order No. 2003 did not authorize transmission owners to rebundle reactive power service, or the costs of providing that service to transmission customers, into their wholesale power sale rates, Reliant stressed.

"The Commission's stark reversal from its holding in SPP that the Reactive Supply Service comparability policy be applied consistently to all generators across the RTO system is unexplained and arbitrary and capricious," Reliant claimed.

The Commission's reasoning also presumes that unaffiliated generators are providing Reactive Supply Service only within the pre-RTO boundaries of the relevant Midwest transmission owner, Reliant noted.

But generators do not provide "zonal" Reactive Supply Service within the Midwest ISO footprint; rather, each generator providing Reactive Supply Service to the Midwest ISO does so for the benefit of the entire Midwest ISO transmission grid, Reliant pointed out.

The Commission's reliance on Order No. 2000 is also incorrect, Dynegy argued, since the order predates the Commission's Reactive Service comparability policy.

"Further, the Commission did not consider the competitive impact its change in policy will have where generators are treated differently solely by virtue of whether the generators have been built in a Schedule 2 zone or a Schedule 2-A zone," Dynegy cautioned.

AARP Doubts AMI Would Entice Retailers to Offer D.C. Residential Products

AARP urged the D.C. PSC to institute an adjudicatory proceeding to review Pepco's advanced metering infrastructure business case, rather than simply soliciting comments from parties (FC 1056).

AARP argued that the proposal would cost, by Pepco's estimate, $52 million, but would only create $28 million in operational or regulated distribution utility service savings. Pepco adds another $29 million in demand response or energy price savings to reach cost-effectiveness, AARP noted.

"Pepco does not link its savings in the Brattle Report with actual customer prices and rate options, claiming that competitive suppliers will offer such options to residential customers," AARP added.

"There is no factual basis for assuming that competitive suppliers will offer residential customers such rate options. This is particularly the case when these suppliers have failed to offer a robust and competitive market to residential customers for any electricity service in the District, even with the higher SOS prices that have been implemented for the last several years," AARP charged.

Earnings Jump at UGI Energy Services

UGI Energy Services net income grew nearly 60% for the second quarter, jumping to $16.4 million from $10.3 million in the year-ago quarter.

Total margin for Energy Services increased $10.8 million to $39.3 million from $28.5 million in the same period last year, from internal growth investments that expanded peaking facilities by 36%, higher peaking rates charged, higher electric generation margin resulting from higher spot market and fixed contract prices for electricity, and increased income from asset management activities.

Energy Services brought two new propane air projects on stream which expanded peak day capacity by 30 MMcfd to a total of 140 MMcfd. Energy Services is currently developing a portfolio of projects, ranging in size from $10 million to a $100 million, focused in several different segments, including peaking services, renewable energy and power generation. UGI expects to announce one or more new projects prior to year-end.

The Energy Services sector helped UGI post quarterly profits of $126.1 million, up from $120 million in the year-ago period.

Briefly:

Wholesale Strength Lifts FPL

Wholesale merchant energy sales drove FPL earnings to $249 million, up from $150 million in the year-ago quarter, and covered weakness at the conglomerate's Florida utility. Competitive wholesaler FPL Energy earned $164 million in the first quarter, up from $45 million a year ago, on the strength of new wind generation and the Point Beach nuclear facility, improved pricing as older hedges expired, and higher earnings from wholesale marketing and trading. In markets other than NEPOOL, earnings rose from favorable pricing, asset optimization, and capacity markets. In NEPOOL, favorable pricing was offset by unplanned outages at Seabrook.

Astoria Wins NYPA RFP for NYC Power

The New York Power Authority selected Astoria Energy to build a new combined-cycle, gas-fired power plant in Queens to provide power to NYPA's governmental customers in New York City under a 20-year contract. The 500-MW plant will effectively replace the Poletti plant which will be retired in 2010. Astoria's new plant is to go online by 2011. Astoria was selected from more than 30 responses from nine suppliers to an RFP.

TriEagle Moves to Dismiss Settled Complaints

TriEagle Energy moved to dismiss Public Utility Brokers customer complaints in PUCT docket 32405 because all 15 customers have settled with TriEagle, releasing TriEagle and Starlight Electric from liability in connection with the complaints. The customers have not yet withdrawn their complaints from the PUCT as agreed to under the settlements, which were executed in November and December of last year. TriEagle has completely paid all but two of the customers for which payments were agreed and will pay the outstanding amounts by May 15. PUB cannot pursue any justiciable claims on its own behalf in the proceeding, TriEagle argued, and thus the docket should be closed.

CPB Opposes Extended Time in UBP Case

The Consumer Protection Board, "strongly opposes," a request from the Small Customer Marketer Coalition and the Retail Energy Supply Association for a two-week extension of time in filing reply comments in the New York PSC's review of ESCO marketing and the Uniform Business Practices (07-M-1514). Action is needed now, "to curtail the abusive marketing practices," addressed in the case, CPB argued. Further delay would "unreasonably" expose customers to greater harm, CPB added. Although RESA and SCMC pointed out 22 parties filed wide-ranging comments, CPB argued there are only a "fairly discrete" set of contested issues and thus more time is not needed.

PPL Bringing Maine Hydro Unit Back Online

PPL is recommissioning its hydro plant in Orono, Maine, at a cost of $4.7 million. The plant, idle since 1996 and bought by PPL from Bangor Hydro-Electric during the state's restructuring, is to produce 20,000 MWh/year starting in 2009, with the power sold on the wholesale market by PPL EnergyPlus. PPL plans to spend more than $500 million on hydroelectric expansions in Pennsylvania, Maine and Montana over the next several years, and another $100 million on other renewable projects, including solar and waste methane installations.

ConsumerPowerline Latest Ontario Entrant
ConsumerPowerline is the latest entrant into the Ontario demand response market, after the Ontario Power Authority awarded it a 25-MW contract as part of the OPA's DR3 load reduction program. The contract lasts through 2013 and provides the option for additional contracts for megawatts based on performance.

Morgan Stanley Wants to Withdraw SCE Complaint
Morgan Stanley Capital Group moved to withdraw its complaint against Southern California Edison over confidentiality in SCE's Long Beach auction (Matters, 4/24/08), informing the PUC that it is discussing the issue with SCE. Morgan Stanley noted that the first auction is a prototype for which market participants and the Commission expect to gain insight and incorporate improvements into future auctions.

FERC To Revoke MBR Authority from Two Sellers
FERC has notified Dunhill Power and Exel Power Sources that it intends to revoke their respective market-based rate authority unless they file electronic quarterly reports within 15 days. Dunhill last field its EQR for the second quarter of 2007, while Exel has never filed an EQR, according to FERC (ER02-2001-007).

Strategic Reaches California Crisis Settlement
Strategic Energy has submitted to FERC a settlement with the California Parties regarding claims from the Western energy crisis under which Strategic would pay $1.6 million from its Power Exchange unpaid receivables to the California Parties, which includes the state's three IOUs, attorney general, PUC, and Department of Water Resources (EL00-95 et. al.).

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income payment plan (PIPP) customers, would be assigned to specific competitive gas suppliers who will then be the customers' SCO service suppliers. The loads of PIPP customers will be served on a proportionate basis by the SCO service suppliers.

The SSO and SCO prices are to be set by monthly NYMEX futures settlement prices plus a retail price adjustment determined by the auctions.

An individual supplier is limited to serving no more than one-third of the total volume to be acquired through the auction process.

Under the final step, which Vectren has not sought approval for yet, all customers would have a direct relationship with their competitive supplier, rather than through the SCO service.

Vectren will establish a rider to recover the transition costs of the company's exit from the merchant function, collected from all SSO, SCO and choice service customers.

"We have seen where this type of plan can result in significant savings to Ohio's natural gas customers," PUCO Chairman Alan Schriber stated. To safeguard customers, PUCO can reject an auction result at any time and return the company's commodity sales customers to the gas cost recovery pricing methodology.