Energy Choice Matters
May 12, 2008

Reliant Rebuts CAPP's Conclusions, Points to Fierce Competition for Rural Texans

Competition is already "quite fierce" in rural areas of Texas and thus an aggregation pool of a few thousand customers wouldn't further lower prices, Reliant Energy Senior Vice President for Market Design and Regulatory Affairs Charles Griffey told us.

Griffey was responding to statements made by the Cities Aggregation Power Project, which called for opt-out municipal aggregation in Texas after a lack of interest among REPs to a pilot opt-in residential aggregation program (Matters, 5/9/08).

An RFP from six cities in the People's Electricity Program (PEP) sought supplies for some 1,600 customers. CAPP attorney Geoffrey Gay told us that under opt-out aggregation, that number would've been around 7,500.

Gay reported that only one REP submitted a timely response to the RFP that went out to more than 20 REPs (any REP offering a price on the PUCT's Power to Choose website). Another REP submitted a late response while a new entrant expressed interest in participating but was still starting up.

CAPP was frustrated that it couldn't get offers below what REPs' were offering on the Power to Choose website.

But Griffey countered nothing in CAPP's RFP materially changed REPs' costs and thus a price lower than what's in the market shouldn't be expected. CAPP is under mistaken impressions regarding acquisition costs and bulk buying power, Griffey explained.

While CAPP argued aggregation should produce lower prices through lower acquisition costs, Griffey noted that the prices on Power to Choose contemplate internet enrollment, and thus don't carry a material acquisition cost premium.

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DPUC Draft Would Bring Summer Seasonal Rates to UI

United Illuminating would be required to implement summer Standard Service generation service charges (GSC) applicable in June through September under a draft DPUC decision (05-06-04RE04).

Summer seasonal rates are appropriate, the draft would conclude, because of the need to lower peak summer consumption and the difference between the cost to procure generation in the summer and UI's GSCs.

The use of a four-month summer period is consistent with the "must run" standards applied under the Department's distributed generation grant program and ISO New England summer demand periods, and also will align UI's seasonal rates with its summer seasonal billing period.

Based on the Department's review of Standard Service procurement costs and the difference in market prices in the ISO-NE energy market over the past few years, the DPUC would establish a seasonal Standard Service GSC price differential of ½¢/kWh that will be embedded into non-Time-of-Use GSC rates and 1¢/kWh that will be embedded into the on-peak GSC prices for Time-of-Use rates.

While data supports a winter seasonal rate as well, the draft would not implement one because of hardship concerns, especially for customers that rely on electricity to heat their homes.

The draft would accept, with modification, UI's variable peak pricing (VPP) plan, and deny the Retail Energy Supply Association's objection to the offering.

The VPP would charge customers a peak rate based on day-ahead ISO-NE prices (adjusted for full

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Surges and Circuits

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

Short Circuits

Maine's Exit from ISO New England: Momentum continues to build against any exit with Central Maine Power's report cataloguing higher costs from any move.

First Choice Power: Speculative trading losses have Wall St. analysts questioning risk management at parent PNM Resources.

PUCO Tells FERC to Hold Off on Duke Generation Transfer

FERC should suspend approval of Duke's application to transfer its Ohio power plants from its Ohio EDC to 22 new LLCs pending action by PUCO, the Ohio Commission told federal regulators (EC08-78).

While Duke has committed to not transferring the plants from Duke Energy Ohio to the new LLCs without PUCO approval (Matters, 5/7/08), action in FERC's docket before the state review process is resolved would impede the activities of the Ohio Commission in fulfilling its mandate under a new state law which calls for complex and novel legal determinations, PUCO argued.

Duke is to file a new electricity security plan under SB 221 which will be used to set standard service rates, since Duke has indicated it will not jointly seek market-based rates in its initial application.

The ownership of the plants is a "significant factor" in determining rates under the security plan, PUCO noted.

Thus PUCO can only consider the question of plant ownership after having set the process for providing such standard service rates, it told FERC.

"If the FERC were to authorize the transfer of these assets before the end of this process, it would greatly complicate the efforts of the Ohio Commission to fulfill its duties under the new state statute," PUCO explained.

Profits Triple at Pepco Energy Services

Pepco Energy Services (PES) tripled its first-quarter profits to $8.6 million from $2.6 million a year ago on a 14% boost in electricity sales.

Executives attributed the growth to additional C&I loads, particularly in expansion markets, favorable congestion hedging and higher capacity prices.

Gross margin from retail energy supply was $23 million versus $7 million a year ago. PES sold 4,766 GWhs of retail electricity in the quarter, versus 4,196 GWhs a year ago.

Conectiv Energy more than doubled quarterly earnings to $48.4 million versus $19 million a year ago, mainly on opportunities resulting from its generating units' operating flexibility and dual-fuel capability, firm natural gas transportation and storage positions, and fuel hedges. Higher capacity prices and new default supply contracts with utilities in the New England market also helped.

Conectiv is upgrading output at several existing units by 160 MW and has bid the additional capacity into the 2010-2011 and 2011-2012 PJM capacity auctions.

Profit at parent Pepco Holdings doubled to $99 million from $52 million in the year-ago quarter.

Universal Gas & Electric Responds to PSC Staff Motions

Universal Gas & Electric reiterated its view that it did not violate Michigan's gas choice tariffs in when it sent out switch confirmation letters to customers, and argued that even under the Michigan PSC Staff's interpretation, the actions would amount to, at most, a "technical violation of the tariff that caused no injury or harm to customers," the marketer said in its latest response (U-15509, U-15577).

An outgrowth from the Commission's investigation of UG&E's marketing practices (Matters, 5/7/08), the dispute centers on when the clock begins for sending confirmation letters of a customer's switch. The tariff mandates such letters must be sent within seven days of a customer entering an agreement with an AGS, but UG&E and Staff disagree as to when that is.

Staff has argued the letters must be sent within seven days of the customer signing an enrollment form.

But UG&E reiterated that its enrollment forms expressly state that they are subject to approval and acceptance by UG&E.

"It is UGE's position that, by merely signing the enrollment form, the customer does not enter into an agreement with UGE," because the enrollment could be rejected by the LDC.

LDCs reject about 14% of customers that sign UG&E's enrollment form, the marketer noted, for reasons such as customers being in arrears.

UG&E also argued that the tariff language in question is meant to relieve the LDC from sending notice to the customer regarding the switch and other safety notices, and the purpose, "has never been to provide yet another reminder to the customer that the customer has 30 days to cancel the enrollment."

The marketer claimed that no customers have called to complain that they did not receive a confirmation letter within seven days, or to claim that they have been injured by such an event.

The tariff, UG&E pointed out, already contains remedies for any violations, and calls for a marketer's participation in the program to be suspended until the violations are fixed. Since UG&E has changed its processes so customers receive the letter within seven days of signing their enrollment form, the matter has been fully addressed and resolved, and nothing further remains to be done, UG&E reasoned.

Briefly:

Higher ERCOT Nodal Fee Approved

The PUCT approved increasing the ERCOT 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 (Matters, 3/7/08).

Another New Entrant Seeks Texas REP Certificate

Nooruddin Investments has applied for a REP certificate at the PUCT under the trade name Texan Energy (35659). Chairman Nooruddin Gilani has spent over a decade building Gold & Diamond Inc. into a multi-million dollar supplier of finished gold and diamond jewelry in the U.S. with customers in 42 states plus several countries. Gilani also holds various real estate interests in the U.S., India, Pakistan and the UAE, and has experience the textile, auto parts and zinc refining industries. He's involved with the Jewelers Board of Trade and the Greater Houston Retailers Association. Consultant Kevin McMinn (Lucid Solutions) will help Texan Energy get off the ground and meet technical qualifications. According to Texan Energy, he's assisted in the startups of Gexa Energy, Stream Energy, and Ambridge Energy and has also consulted for TXU and Reliant. Texan Energy intends to become a Level 2 QSE and is negotiating with a QSE Services Provider. It's picked EC Infosystems for EDI functionality and billing. Texan Energy applied to serve as a REP across the entire state.

CL&P LRS Procurement Approved

The Connecticut DPUC approved Connecticut Light and Power's solicitation for Last Resort Service for the third quarter of 2008 conducted May 7 (06-01-08PH02). Separately, CL&P reported the collective suppliers that will supply Standard Service power for the second half of 2008, as determined by prior bids and the recently approved April 23 procurement (Matters, 4/25/08). The suppliers are Consolidated Edison Energy, Conectiv Energy Supply, FPL Energy Power Marketing, PPL EnergyPlus, and Constellation Energy Commodities Group. CL&P has fully bought Standard Service power for the rest of 2008, 70% for 2009 and 20% for 2010.

Liberty Can Sell to Any-Size Illinois Customer

The ICC granted Liberty Power Holdings' ARES license amendment to serve all customers in ComEd and Ameren. Previously Liberty held authority to serve customers with annual usage greater than 15,000 kWh.

Delaware PSC Approves Broker License

The Delaware PSC granted an electric broker license to Mitchell Energy Management Services. Mitchell Energy intends to offer its brokerage services to commercial, industrial and governmental customers in Delaware.

NEPOOL Asks to Consolidate MEPCO Dockets

The NEPOOL Participants Committee asked FERC to consolidate two dockets concerning a new connection between New Brunswick and ISO New England for judicial efficiency. Docket ER07-1289 concerns a proposal to designate the existing tie, owned by the Maine Electric Power Company (MEPCO), as a pooled transmission facility to give it comparable treatment as the new connection (Matters, 3/17/08). In that docket, FERC determined any such proposal must recognize Casco Bay Energy's existing rights on the line, but settlement talks have stalled over

Casco Bay's rights. With the dispute holding up raising the transfer capabilities of the ISO-New Brunswick interface, New Brunswick Power Transmission and other parties filed a complaint against the ISO in EL08-56, arguing that the ISO should find interim measures to raise the transfer limit (Matters, 4/21/08). But both dockets center on the same questions, NEPOOL argued, and litigating them separately would delay resolution. Meanwhile, ISO New England filed an answer to the complaint in EL08-56, arguing that raising the limit before docket ER07-1289 is resolved would violate the filed rate doctrine, adding that stop-gap proposals have not been shown to be just and reasonable.

CAPP Aggregation ... *from 1*

Griffey countered the claim that REPs are ignoring rural customers because they concentrate their marketing on high-density metro areas. He pointed to a wealth of 11-12¢ offers for rural areas on the Power to Choose site.

Many REP marketing efforts are not dependent on geographic density, Griffey pointed out, such as telesales, internet marketing, or direct mailers. And those are the marketing efforts that carry specific offers, and they can be tailored to rural zip codes the same as for metro areas.

The only marketing rural customers wouldn't see would be general brand building (billboards, mass transit ads, etc.) that don't typically include specific offers. Even television ads, while bought in larger metro areas, would be dispersed to rural areas since they typically receive the networks from the closest metro area, Griffey noted

Additionally, REPs already buy their power in bulk and an aggregation pool, even under opt-out aggregation, isn't large enough to move the needle in terms of pricing, Griffey reported. Reliant, for example, is already aggregating is power procurement for over 1.5 million customers, Griffey observed; even a pool of 100,000 customers wouldn't appreciably change its wholesale pricing, Griffey said.

Gay, though, reported one REP did report that there would be savings associated from pooling a few thousand customers, though that REP ultimately passed on bidding on the PEP aggregation.

REPs, Gay asserted, are more focused on winning contracts for multi-family dwellings in urban areas as aggregation and simply aren't interested in rural pools.

Gay also suggested that the former affiliated REPs are the most opposed to opt-out aggregation because they would lose their incumbent customers.

CAPP intends to push for opt-out aggregation again in the next legislative session, Gay reported, so we asked how CAPP would like it set up.

Gay would not expect to impose an exit fee or minimum stay on any opt-out aggregation program which is developed. He'd be willing to limit it to cities under a certain population as well.

Opt-out aggregation could help jumpstart migration in rural areas, Gay added, noting most of the 1,600 PEP customers had never switched before. Opt-out aggregation would get customers thinking about choices and their electric bill, and break their incumbent relationship which keeps many customers from switching, he said.

Gay called a litany of costs customers are looking at paying in the future "depressing," pointing to transmission costs to access competitive renewable energy zones, advanced metering costs, energy efficiency costs, and the continued reliance of gas-fired generation at the margin. Something is going to have to happen in the next legislative session, he predicted.

Opt-out aggregation was not part of the nearly passed SB 482 in the 2007 session which carried a host of electric market changes and failed in the last hour on a procedural maneuver, but was contained in separate proposed bills. Absent a dramatic decrease in prices, legislative observers expect the final version of SB 482 to be merely a starting point for any 2009 proposals.

UI Seasonal Rates ... *from 1*

requirements), following the existing two-part time of use structure.

RESA had argued that the VPP is not a real-time or critical peak rate and thus did not comport to statute. Rather, RESA characterized VPP as a time-of-use product with a pricing structure that is so unattractive that few, if any, customers would choose to participate.

But the draft concludes the VPP proposal fits the statutory definition of real-time pricing and is supported by key stakeholders.

VPP would be modified, though, to allow all customers to choose the option. UI had proposed only offering VPP to Last Resort Service customers.

The draft would eliminate a proposed one-year minimum stay on VPP. The draft finds that VPP should follow the same rules as Standard Service or Last Resort Service, and allow customers to switch among generation options at any time.

RESA's request to direct UI to implement alternate real-time rates would be denied under the draft. The Department would wait for results from a meter study by Connecticut Light & Power in docket 05-10-03RE01 before addressing alternate real-time rates.

UI would be directed to file revised supplier terms and conditions reflecting the elimination of minimum stay requirements for customers returning to Last Resort Service.

The draft would direct UI to submit a plan to simplify its bills to answer concerns bills have become too complicated with unbundling. UI should consider issuing a summary page to show each customer their monthly customer charge, delivery and generation charges, with information about current unbundled charges displayed on a separate page, the draft suggests.

The draft would also revise net metering rules for customer-owned class 1 renewable energy sources and hydropower facilities under 2 MW.

Under the draft, UI would establish annual banking of net metering credits beginning April 1 of each year. Customers generating more power than they consume would have excess credits carried over and applied to the next month's bill. At the end of the annual period, any remaining generation credits would be paid depending on the type of generation. Photovoltaic systems would be paid based on the annual average ISO New England real-time LMP for the hours of 10 a.m. to 4 p.m. while all other technologies would be paid based on the annual 24-hour average ISO-NE real-time LMP.