Energy Choice Matters

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Conn. Utilities Blast "Protracted" Contract Review Suggested by RESA

The Retail Energy Supply Association's proposal for reviewing long-term bilateral contacts for Connecticut Standard Service would be, "a protracted process that will be impractical and at odds with the demands of transacting business in the wholesale power markets," United Illuminating argued in responding to a RESA motion for reconsideration (Matters, 5/8/08).

Potential counterparties would be "reluctant" to engage in a long proceeding with a, "virtual guarantee of opposition by RESA, as was experienced recently in a long-term contract hearing in Massachusetts," UI explained (07-06-58, 06-01-08RE01).

Granting RESA's proposal would likely compel wholesalers to include a regulatory risk premium in their contracts, UI added, to account for the potential for a prolonged proceeding.

Retail suppliers will have no "constructive input" in offering information as to how long-term contracts will impact standard offer procurements, or on the costs and benefits expected for ratepayers, UI asserted.

Allowing RESA to participate in the contract review which will include commercially sensitive information, "would be the equivalent of placing the fox in charge of henhouse security," UI claimed.

That concern is particularly important, Connecticut Light and Power added, since some RESA members could conceivably be exploring the viability of using long-term bilateral contracts to fulfill their own load obligations. Disclosing pricing data to RESA members, even under protective order, would prejudice bidders in any pending or future negotiations with RESA members, CL&P argued.

UI and CL&P both countered RESA's arguments that legislative intent favors reviewing long-term contracts in terms of retail competition, pointing to legislative provisions for cost-plus peaking generation, integrated resource planning and procurement, and long-term renewable contracts in addition to the use of bilaterals for Standard Service.

Lehman, Credit Suisse Apply for REP Certificates; Former WhiteFence Execs Also Plan Start-up

The ERCOT market continues to attract a steady stream of new entrants with six REP applications in the past week alone.

Yesterday, two big investment banks both applied to become Option 1 REPs in Texas, asking the PUCT for authority to sell to customers across the entire state. A new startup by former WhiteFence executives also wants to enter the retail market.

Lehman Power Services, an affiliate of Lehman Brothers Commodity Services, applied for a REP certificate in docket 35671. Lehman Brothers Commodity Services is a QSE and PUCT registered power marketer. Lehman is also affiliated with Eagle Energy Partners I, which is a Level 4 QSE and power marketer, and Lehman expects to enter into agreements with Eagle Energy Partners for services to meet various ERCOT scheduling and technical requirements.

Through Eagle Energy Partners, Lehman is indirectly affiliated with REP Champion Energy Services, but Eagle is selling its interest in that REP in a transaction pending before the Commission (Matters, 5/8/08), which received staff's positive recommendation yesterday (35591). Once the sale of Eagle's stake in Champion is consummated, Lehman will no longer be affiliated with Champion. While Lehman expects to execute an EDI vendor agreement in the next few days, it is still evaluating whether to provide billing services in-house or through a third-party vendor.

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Strong Quarter at WGES, But Exec Warns of Electric Attrition from Higher Prices

Higher natural gas margins drove a strong quarter for Washington Gas Energy Services which recently reported net income from retail energy marketing of $3.6 million versus a loss of $1.6 million a year ago.

The turnaround was despite lower gas and electric volumes at WGES.

Natural gas sales dipped 20% compared with last year's quarter to 254 million therms, due to warmer weather and the loss of some large government accounts. However, margins per therm rose in the current quarter to mitigate lower volumes.

WGES sold 872 million kWh of electricity versus 1 billion kWh in the year-ago quarter. Total gross margins were lower in the current quarter from lower sales and narrowing unit margins. WGES, though, expects unit margins to recover to $7-8/MWh for the fiscal year (slightly above original estimates) on higher forecasts for transmission capacity and other load credits.

Although gas and electric customer counts were relatively flat at 140,700 and 68,300, respectively, President Harry Warren told investors that the big run-up in energy prices is limiting customer acquisition, especially on the electric side. Warren doesn't expect much growth in the electric customer count through the rest of the year, and cautioned that the marketer is starting to see higher attrition among residential and small commercial customers during a heavy renewal phase at WGES, as customers opt for cheaper utility rates.

While the electric count has been stable, WGES is serving a relatively higher number of residential customers and fewer commercial accounts, Warren added.

Uncollectible levels remained very low at a rate of less than 0.2%, he noted.

Parent WGL Holdings reported higher quarterly profits of $81 million versus $63 million a year ago.

Industrials Blast Duke Energy Ohio Generation Transfer

Duke Energy Ohio's proposed transfer of generation assets into 22 new LLCs would increase costs to ratepayers by $180 million annually, the Ohio Energy Group (OEG) told FERC (EC08-78).

Based on forward prices from the Cinergy Hub adjusted for retail rates, OEG estimated that residential (RS) rates would rise 11.2%, secondary (DS) rates would rise 14.1%, primary (DP) rates would rise 30.7% and transmission (TS) rates would rise 30.2%.

Since Duke-Ohio can't transfer assets without PUCO approval (Matters, 5/12/08), FERC should dismiss its transfer application since Duke has failed to state a claim upon which relief may be granted, OEG urged.

Duke's application is not ripe for adjudication given its inability to transfer the plants under Ohio law, and FERC action would be fruitless without PUCO approval, OEG added.

Countering Duke's claim that retail customers are not captive, OEG argued that Duke-Ohio's territory has never been effectively deregulated and its retail customers remain largely captive.

Duke-Ohio's "market-based standard service offer" is not a deregulated rate, and remains subject to PUCO jurisdiction to result in "reasonably priced" retail electric service while protecting customers from market deficiencies and market power, OEG pointed out.

Duke-Ohio's website lists Dominion Retail as the lone residential option for shopping customers. However, Dominion's website, OEG notes, states it is currently not offering a commodity service for new customers in Duke-Ohio.

Over 90% of business customers take service from Duke-Ohio as well.

Cross-subsidization would also result from the transfer, OEG claimed, because the full assets and liabilities would not be transferred to the new competitive generation LLCs. Duke-Ohio would retain the entire acquisition premium resulting from the Duke-Cinergy merger and the entirety of the equity premium associated with that acquisition premium, OEG observed.

The transaction would also not transfer common costs to the new LLCs such an intangible and general plant costs. Duke-Ohio may not transfer all of its wholesale power contracts or interest in the Ohio Valley Electric Corporation. If such wholesale contracts are not transferred, retail ratepayers may bear the risks from such contracts, OEG pointed out.

Duke-Ohio would also pay transaction costs, rather than the new LLCs, OEG noted.

SPP, Entergy Counter ConocoPhillips Transmission Complaint

A complaint by ConocoPhillips against Entergy regarding recalled transmission service fails to establish any tariff violation, Entergy's Independent Coordinator of Transmission SPP told FERC (Matters, 4/25/08).

"[D]isappointed expectations do not constitute tariff violations," SPP argued (EL08-59).

"What ConocoPhillips may have 'need[ed]' or 'expect[ed]' has nothing to do with whether it was entitled to the requested service under Entergy's OATT," SPP added.

ConocoPhillips had argued that it made transmission reservations under Entergy's OASIS that were accepted, making them binding on Entergy. The reservations were later recalled, because the system had been oversubscribed due to a software error which should not have granted the reservations, SPP reported.

"The critical point, which ConocoPhillips does not dispute, is that had the software functioned properly, ConocoPhillips' service requests would have been denied," SPP explained.

While ConocoPhillips argues Entergy should have used alternatives to curtailing all of its service (such as pro rating curtailments of all customers), "a customer having no initial right to service is not similarly situated to a customer whose reservation was properly accepted," SPP contended.

Remedying the oversubscription through real-time emergency procedures was not an option, SPP added, because of reliability concerns.

"To be clear, the decision to cancel reservations in reverse queue order was designed to achieve a remedy that relieved SPP's reliability concerns and was most consistent with the actions typically used to correct legal error - i.e., to place affected parties in the situation they would have been in had the error not occurred. Given the circumstances, this was the most equitable and practical response," SPP reasoned.

Entergy stressed that SPP as the ICT, and not Entergy, terminated ConocoPhillips' service, despite ConocoPhillips' repeated assertions to the contrary.

Under Entergy's OATT the ICT grants and denies requests for transmission service and, as the Reliability Coordinator, the ICT has authority over reliability on the Entergy transmission system, Entergy reminded.

Entergy is bound by its OATT to follow the ICT's directives and not following the ICT's order would have been a tariff violation, Entergy pointed out.

NRG Energy also had 33 MW of firm point-to-point transmission reservations recalled as a result of the overselling of the AMRN interface.

NRG asked that the Commission's determination in the docket apply equally NRG as well as any other party that had a firm reservation recalled or annulled.

NRG urged FERC to investigate the circumstances that caused the Entergy ICT to oversell the interface. NRG reported that following the May/June 2007 overselling of the export capability, it appeared that the AMRN interface was being oversold with respect to imports in the late summer of 2007.

NRG pointed to a "dramatic increase" in transmission curtailments (specifically, transmission loading relief) as evidence problems with the AMRN interface continue.

"The overselling of transmission service on that interface has led to an increased level of congestion over that interface which in turn has led to increased curtailments of firm service," NRG argued.

Entergy and the ICT have not provided an adequate explanation of how the problem with the Ameren interface occurred, why Entergy and the Entergy ICT did not recognize the problem, why it took so long to act, and why there has been an increase in curtailments, NRG asserted.

SCE Defends Costs of Solar Program, Claims RPS Comparisons Not Apt

Southern California Edison rebuked comparisons of its proposed Solar PV Program to RPS solicitations, arguing that each accomplishes different goals, and that price comparisons between the programs aren't meaningful (A 08-03-015).

SCE has proposed spending over $1 billion to install 250 MW of utility-owned solar photovoltaic generation on commercial building rooftops to attain the goals of the California Solar Initiative at a lower cost (Matters, 5/1/08).

But while the costs may be lower than the CSI, they're still much higher than what could be achieved under RPS procurement, stakeholders have suggested. The Independent Energy Producers Association noted, for example, SCE's solar power would cost 46¢/kWh.

SCE responded that it is not appropriate to compare, on a head-to-head basis, utility and IPP resources, due to a variety of factors including different economic lives, risk profiles, debt equivalence impacts, potential collateral requirements, and other potential benefits of utility-owned plants.

SCE argued that the cost per kWh of utility solar power must consider the levelized revenue requirements of the Solar PV Program over its life. Using a levelized cost methodology, the program's power costs 30¢/kWh, SCE calculated. Applying an estimated 1.39 weighted average Time of Day factor to SCE's levelized cost calculation decreases the levelized revenue requirement to 22¢/kWh, SCE reported.

Regardless, SCE contended that the goal of the RPS solicitation is to obtain the least-cost/best fit resources to meet renewable goals, with projects consisting of large central station facilities that utilize a number of different resources.

SCE's Solar PV Program, the utility contrasted, would use 1-2 MW distributed rooftop solar PV technology, which SCE claims will deepen and broaden the local solar PV market for facilities that attach directly to the distribution system.

"It will thereby help to reduce costs for participants in the CSI program, which also interconnects at the distribution level," SCE concluded.

SCE urged the PUC to reject suggestions for a 250-MW RFO for small, distributed PV facilities or a "feed-in" tariff for any solar facility desiring it.

Neither policy, "is equivalent to the establishment of a utility-owned Solar PV Program consisting of 250 MW of 1-2 MW solar PV facilities," SCE reported.

SCE's program would attain results "expeditiously," the utility claimed, while an RFO or feed-in tariff would not produce as quick results.

"SCE's financial stability and business reputation will increase the probability that 250 MW of solar PV systems will be available to meet the State's solar rooftop goals over the next five years," SCE argued.

As a "reliable business partner," SCE expects to receive volume discounts for its proposed investment.

"Multiple developers are unlikely to achieve the same efficiencies and favorable pricing levels," SCE claimed.

SCE's program would not restrict competition, SCE insisted, because other entities are not presently constructing the 1 to 2 MW solar PV facilities contemplated by SCE's program.

Briefly:

ERCOT Reports 43% Rise in RECs

The total amount of energy generated by renewable energy resources tracked by ERCOT's REC Trading Program for 2007 was 10,132,645 MWh, a 43% increase over the 2006 total, ERCOT reported to the PUCT (27706). ERCOT stressed that the program is optional for generators so total renewable energy in the state may be higher. Not surprisingly, wind resources accounted for 90% of the REC program's output. New renewable capacity in the REC Trading Program grew to 56 generation accounts, with an installed capacity of 4,600 MW at the end of 2007, ERCOT said. The total REC requirement for all competitive retailers for 2007 after adjustments for previous true-ups as required by the PUCT was 3,421,626 RECs. The total RECs retired for mandate was 3,388,063, including adjustments for previous year true-ups. ERCOT reported an additional 1,637,871 RECs retired voluntarily. ERCOT also reported publicly the 2006 REC mandates for each REP and voluntary REC retirements by REP for 2006, as the confidential protections for that commercial data have expired.

Mirant RPM Settlement Certified, Heads to Commission

A FERC ALJ certified and recommended for Commission approval an uncontested settlement pertaining to the determination of Market Seller Offer Caps in the Third Incremental Auction (TIA) of PJM's Reliability Pricing Model (EL08-8). Mirant had demonstrated that the prices resulting from the TIA may be unjust and unreasonable because generators may be assessed a deficiency charge, but the cost associated with that risk is not reflected in the Avoided Cost Rate which may be used to set offer caps. Since the TIA is the final opportunity to procure replacement capacity by auction, a generator that is forced to sell all of its capacity in that auction, and which subsequently becomes unable to deliver that capacity, has no opportunity to purchase replacement capacity in a subsequent incremental auction, FERC had noted. The settlement changes the definition of Market Seller Offer Cap for the TIA to include a third offer cap, which an existing Generation Capacity Resource may elect. The new cap limits the offer price to 1.1 times the Capacity Resource Clearing Price in the Base Residual Auction for the relevant Locational Delivery Area and Delivery Year, which will better compensate resources for the expense of participating in the TIA and their risk of being assessed a deficiency charge. The pact also directs PJM to conduct a stakeholder process to analyze the RPM penalty structure and its impact on the TIA.

Pepco Energy Services Wins PennState Efficiency Contract

Pepco Energy Services won a comprehensive energy performance contract program for Pennsylvania State University's University Park campus. PES will install exhaust air heat recovery and variable air volume controls, stack variable geometry discharge dampers and control upgrades for air handling units under the 10-year contract. Guaranteed annual energy savings are to exceed $1 million per year.

New REPs ... from 1

Meanwhile, Credit Suisse Energy also applied for an Option 1 REP certificate to serve the entire state (35676). Credit Suisse is currently a QSE in ERCOT.

Two former executives at home services website WhiteFence are starting their own REP as well. Bounce Energy, founded by Robbie Wright and Karl Trollinger, applied for a REP certificate at the PUCT to serve the entire state (35670). Wright, CEO of Bounce Energy, spent over seven years at WhiteFence, where he was last Senior Vice President of Customer Experience, while Trollinger, Chief Marketing Officer for Bounce Energy, also spent seven years at WhiteFence, as Vice President of Marketing and Conversion. Both Wright and Trollinger managed the addition of numerous competitive energy retailers to WhiteFence's platform. Bounce Energy is still evaluating EDI and billing service providers.