Energy Choice Matters

June 10, 2008

Reliant Energy Only REP Expressing Interest in CenterPoint AMIN Program So Far

REPs voluntarily installing smart meters under CenterPoint Energy's advanced metering information network (AMIN) would pay at least $200 to $2,300 per meter for installation, CenterPoint reported in response to RFIs (35620, Matters, 6/4/08).

The AMIN programs would allow REPs to direct and fund smart meter installation ahead of CenterPoint's regulated deployment.

Costs would mainly be driven by the need, or lack thereof, for concurrent installation of communication infrastructure. Meters installed in areas already covered by communication infrastructure would cost about $200, but meters in areas without the communication infrastructure would cost about $2,300 to cover building the needed communication network. Those costs do not include any backoffice, scalability, reliability infrastructure, or O&M costs or any administrative overhead.

Material costs for a single advanced meter and associated communication infrastructure are approximately the same as the costs under CenterPoint's advanced meter deployment in docket 35639, although installation labor costs will vary depending on the services requested by the REP.

CenterPoint reiterated that it is obligated to reimburse REPs only for those costs that are expressly reimbursable under the AMIN Agreement.

Non-reimbursable costs, as noted in the Agreement, include O&M costs; unique reliability, scalability and functionality costs; costs in excess of amounts approved in the determination of the smart meter surcharge; carrying charges; and amounts affected by a disallowance at reconciliation or

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APPA Report Details Barriers to Generation Entry

Investors appear to be balking at financing new merchant generation projects, even with risk premiums attached, John Kwoka, professor at Northeastern University, concluded in a report to the APPA regarding barriers to generation entry.

Kwoka observed that generation plants now attractive to investors appear to be those contracted for by municipally owned utilities and traditionally integrated utilities - the very two types of utilities that have assured long-term generation needs based on native loads, he explained.

The report drew a swift rebuke from EPSA, which pointed to internal inconsistencies in Kwoka's conclusions.

EPSA called it "mistaken" for Kwoka to assert that competitive suppliers are unable or unwilling to invest in new generation, noting his report admits that 74% of all new capacity additions between 1996 and 2004 were made by competitive suppliers, despite a litany of barriers to entry.

EPSA concludes that while region-specific barriers to entry can be lowered, new merchant construction in the early 2000s clearly shows barriers are not insurmountable and that the market worked since, as the report noted, the build-out, "represented a response to demand and supply forces."

Kwoka, however, noted that little of the new capacity consisted of baseload generation, and little of that appeared in the most highly concentrated generation markets.

Yet EPSA is perplexed that Kwoka dismisses the high level of investment by calling it a "market mistake of major proportions." The report, "appears to be internally inconsistent, criticizing competitive markets when the author's opinion is that supplies were 'too high' or 'too low' without

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Briefly:

Maryland Paper Says Larsen Leaving PSC

Citing unnamed sources close to the governor, the Maryland Daily Record reported PSC Chairman Steven Larsen is expected to leave the Commission in mid-August and return to Amerigroup, where he was an executive vice president prior to his PSC appointment. PSC General Counsel Douglas R. M. Nazarian has been tipped as Larsen's replacement.

Riverway Reverses on Reorganization, POLR Drop Imminent

Determining that reorganization was not practical, Riverway Power (Sure Electric) asked a bankruptcy court to dismiss its case, reporting that it is not able to keep operating (Matters, 6/6/08). Should the request be granted (and barring a last-minute cash injection), Riverway would default on ERCOT obligations, which would institute a POLR drop for some 6,500 customers. A hearing is scheduled for this morning.

In a related matter, Regulated Industries Chair Rep. Phil King has suggested to the PUCT that energy efficiency funds could be temporarily used to help customers facing much higher POLR bills. "Given that a customer who is charged such high rates in this situation will be unlikely to give the competitive market another chance, it is imperative that we aggressively evaluate all avenues to provide these customers some protections," King wrote in a letter to Commissioners. Tom Smith, director of Public Citizen's Texas Office, called it a mistake to divert efficiency funds to bail out a few thousand customers.

MEG Files Appeal of Type II Mitigation

The Maryland Energy Group and W.R. Grace have filed an appeal of the Maryland PSC's mitigation for Baltimore Gas & Electric new Type II customers in the Baltimore City circuit court (Matters, 5/29/08). MEG told the court its members are being financially harmed by the PSC's decision to finance rate mitigation for new Type II customers, who were moved onto quarterly pricing because of a definition change, via a non-bypassable distribution surcharge on all non-residential customers. MEG limited its appeal to the BGE mitigation since its members' facilities are all in BGE's service territory.

PUCT Issues POLR Eligibility Form for All REPs

As it's an even numbered year, all Texas REPs are required to report on their load and customer count to determine their POLR eligibility. The PUCT staff issued a an eligibility form in project 35630 which REPs must complete by July 10, providing breakdowns by the four POLR customer classes and service areas of their ESI IDs and MWhs served. Additionally, REPs may submit an indication of their willingness to voluntarily serve as a POLR, in a separate filing, no earlier than July 10, and no later than July 31.

Delmarva Signs More Wind PPAs For Delaware Customers

Delmarva Power signed a long-term PPA with AES for up to 70 MW of land-based wind power to meet renewable energy goals for Delaware. Deliveries under the 15-year contract could begin as early as 2009 and pushes Delmarva's wind portfolio to 170 MW. It's looking for a total of 460 MW to counter the offshore Bluewater proposal which Delmarva considered too expensive (Matters, 6/4/08). The contracts need PSC approval.

ECS Inks SCE Deal

Energy Curtailment Specialists signed a 40-MW demand response contract with Southern California Edison. The contract requires final approval from the PUC.

CenterPoint Comment Not Meant as Attack on EILS, TDSP Says

CenterPoint Energy objected to a motion to intervene from the Demand Response Coalition (DRC) in CenterPoint's advanced metering system docket (35639), arguing that the demand response providers do not have a justiciable interest.

DRC had moved to intervene last week, seeking to rebut a comment made by CenterPoint in its original filing in which the CenterPoint suggested that advanced meters could offset the need for Emergency Interruptible Load Service in ERCOT (Matters, 6/6/08).

CenterPoint objected to DRC basing its intervention standing on a single statement in CenterPoint's more than 1,800-page application.

CenterPoint rejected DRC's characterization of its EILS statement as an attack on the EILS program, and affirmed that implementation of smart meters should offset the need for ERCOT to procure EILS.

"However, creating the opportunity for greater efficiency and thereby reducing the number of instances in which EILS is required is very different than attacking or challenging the EILS program," CenterPoint pointed out.

"[W]hile many emergency measures are important and even necessary, it is better to allow customers to manage their use of electricity so that emergency measures would not have to be used," CenterPoint added.

To demonstrate a justiciable interest requires something more than the mere assertion that a party will experience some remote economic harm at some future point, CenterPoint argued, citing Commission precedent.

"The most that DRC can allege is that greater efficiency in the provision of power due to the implementation of AMS will reduce the instances in which ERCOT must pay participants in the EILS program to stop using power. Clearly, DRC's alleged interest is 'too remote and too tangential to satisfy the most general requirements for standing,'" CenterPoint claimed.

"Because DRC's claim of economic harm is so remote and attenuated, the proposed basis for intervention set forth by DRC would allow any power generation company or load acting as a resource to intervene in any matter that might potentially affect the supply of power anywhere in ERCOT," CenterPoint cautioned.

Pepco Expects Lower Prices from Advanced Meters

Pepco expects that regional wholesale capacity and energy prices ultimately will be reduced as District of Columbia customers get expanded access to usage information and react to price signals made possible through smart meters, the utility told the D.C. PSC (FC 1056).

Pepco was responding to comments of the Office of People's Counsel regarding renewable energy, energy efficiency, and proposed legislation on a government run utility company (Matters, 5/27/08).

Pepco called such comments outside the scope of FC 1056, which the Commission has limited to reviewing the utility's business case for advanced meters.

As detailed in an earlier Brattle Report in the docket, Pepco anticipates that all customers will be able to reduce bills through demand response and the ability to shift usage to lower-price periods.

It would be premature to perform detailed individual bill impact studies without a specific rate design proposal to be evaluated, Pepco added, and it expects it will refine the ultimate rate design after results from its smart meter pilot.

Pepco called OPC's argument that Pepco should not offer efficiency services because it conflicts with Pepco's profit motive in selling SOS, "baseless."

Pepco's purported SOS disincentive for energy efficiency cited by OPC (a mere 88¢/MWh for residential customers) is "negligible," Pepco responded, and would only amount to $175,000 annually if residential sales were reduced by 10%. In comparison, Pepco currently faces an energy efficiency disincentive of $20.56/MWh in residential distribution rates, but that would be eliminated under Pepco's bill stabilization adjustment so it could aggressively pursue conservation. If the minor margin on SOS sales is viewed as a serious problem, Pepco suggested modifying the bill stabilization adjustment to remove the SOS disincentive as well.

"Pepco is the appropriate party to provide customers with energy conservation programs," the utility insisted.

"Pepco knows its customers and will be able to most effectively reach its customers with conservation programs," it added, citing a "proven track record" in providing demand side management.

California ALJ Favors PG&E-SJVPA CCA Settlement

A California ALJ recommended approving a settlement between Pacific Gas & Electric and the San Joaquin Valley Power Authority (SJVPA) to resolve SJVPA's complaint against PG&E in connection with SJVPA's community choice aggregation (CCA) pool (07-06-025).

SJVPA had alleged that PG&E unlawfully interfered with SJVPA's CCA program, made disparaging statements to customers regarding CCA despite telling the PUC it was neutral on CCA, used regulated staff to market and retain customers, and improperly accounted for marketing expenses.

PG&E argued that no PUC standards governed how PG&E was to communicate with customers and SJVPA member communities.

The settlement recognizes that PG&E changed its position regarding CCA and that it now markets its energy supply services to retain customers. The pact and its provisions only applies to how PG&E does business in SJVPA member communities, although the City and County of San Francisco has asked the PUC to apply the standards to any of PG&E's CCA-related activities.

PG&E and SJVPA agree in the pact to use truthful and non-misleading marketing with disclaimers in advertisements.

PG&E employees tasked with marketing against CCA are to be separate from employees carrying out regulated functions, with a prohibition on marketing employees concurrently participating in activities with non-marketing employees.

The pact affirms that marketing costs are to be paid by PG&E shareholders. PG&E is also to pay $450,000 in SJVPA legal fees.

TXU Offers $30,000 Prize in Efficiency Contest

TXU Energy announced the $30,000 Power Saver Challenge, billed as a "reality contest" for existing and new residential customers which will reward customers for sharing ideas on trimming power bills. Customers can enter through July 25 online (www.txu.com/powersaver) by answering a short questionnaire and submitting a brief essay.

Fifteen semi-finalists will win $100 bill credits and be selected to submit either a video or written essay combined with photos on home energy conservation themes. The three finalists from different geographic regions of Texas will win an HD video camera, a $5,000 cash fund to use for home energy improvements, and a free in-home energy audit. The grand prize winner will receive $30,000, with the winner selected from a combination of web voting and from an expert panel which will evaluate each finalists' Home Energy Rating System (HERS) rating improvements, ingenuity, and energy-savings behavior.

ISO New England Releases Annual Market Report

ISO New England's markets performed competitively in 2007, the ISO's Annual Markets Report concluded.

Nominal average wholesale electricity prices rose 10.9% from $62.74/MWh in 2006 to $69.57/MWh in 2007. The fuel-adjusted average price rose 5.8% to $45.15/MWh. The fuel-adjusted price average was $45.01/MWh from 2000 to 2006.

Gas-fired power plants generated 42% of New England's electricity in 2007.

Average price separation among load zones continued to narrow in 2007. Average prices continued to be highest in Connecticut and lowest in Maine.

Capacity costs grew from 2% of total electricity costs in 2006 to 11% in 2007.

Enrollment in ISO New England's demand-resources programs grew by 162%, from 646 MW in 2006 to 1,693 MW in 2007.

Generator availability, which stood at 81% when wholesale electricity markets started in New England in 1999, hit a new high of 90% in 2007.

The report recommends incremental improvements to market design rules in the region's reserve markets, financial transmission rights markets, and Real-Time Demand-Response program, while concluding that thresholds for daily reliability payments should be examined.

CenterPoint AMIN ... from 1

a prudence disallowance in a rate case

AMIN meters would remain installed at the original ESI-ID location unless the REP installing the meter requested relocation. The REP would have to pay all related costs, including administrative and overhead costs, warehousing costs, the cost of removing the meter, the cost of testing and calibrating the meter, the cost of installing a replacement meter, the cost of testing and calibrating the replacement meter, and the cost of installing the meter in a new location.

If the REP decides not to move the meter, but the customer switches to another REP, the new REP could only use the meter if it is a participant in the AMIN program. The new REP, if participating, could enjoy current functions of the meter plus added functions the REP wished to fund.

To date, only one REP has indicated a willingness to participate in AMIN: Reliant Energy.

APPA Report ... *from 1*

including the benefits when decisions are made by market participants largely at the investor's risk," EPSA argued.

"Contrary to the report's implication that barriers to entry are precluding needed investment today, APPA's own data shows that non-utility and other competitive suppliers are currently leading the power sector in planned capacity additions. APPA's published data shows non-utility generators are responsible for 48.8% of new electric capacity under construction. Furthermore, these generators account for more than 80% (19,867 MW) of capacity already permitted and more than 72% (75,000 MW) of all proposed capacity," EPSA pointed out.

Kwoka reported that capacity additions in 2005 totaled only 15,000 MW, down from more than 60,000 MW in 2002. Moreover, most of the additions in recent years came from municipally owned utilities, traditional vertically integrated utilities, and wind projects, Kwoka claimed.

"Indeed, it is one of the great ironies of electricity restructuring that publicly owned utilities, overwhelmingly distribution-oriented but now concerned with long-term supply, have begun to integrate vertically in order to ensure necessary supply," Kwoka noted.

More troublesome, Kwoka concluded, is the fact that, despite projected shortages, there appears to be only a modest amount of new investment under way or planned. Underscoring that, some RTOs and analysts contend that current pricing does not generate sufficient net revenues from new generating units to cover their annualized capital cost, Kwoka added.

EPSA argued that Kwoka "mistakenly suggests" that natural gas was only the fuel of choice in the last build-out because of competitive wholesale markets. EPSA contended that rate-regulated utilities built natural gas generation as well because of its low price and environmental features.

EPSA seized on Kwoka's observations that, "Unpredictable changes in future regulatory policy that alter the likely revenue stream from a project add to uncertainty about the prospects for covering its initial costs," and that, "A second oft-cited concern would be where regulators adjust price ex post explicitly for the benefit of a favored party, or when they abrogate contracts because the contracts have resulted in unappealing outcomes (e.g., high price to favored parties)."

EPSA argued that RPM Buyers' complaint regarding PJM's Base Residual Auctions (Matters. 6/2/08), "clearly qualifies as a request for the type of ill-advised regulatory action that the report advises against because it would increase investor uncertainty."

EPSA also agreed with Kwoka's comments on the adverse impact of bid caps in organized markets.

Relative to other markets that may deal adequately with substantial uncertainty, Kwoka noted electricity markets are at a much earlier stage of development. That leads to less information about the distribution of likely future outcomes, which in turn might result in a higher risk premium or alternatively, a thin or non-existent market.

One of the numerous barriers detailed in Kwoka's report is the absolute cost advantages accruing to incumbents, since they often possess the best locations for generation, which cannot be replicated.

Projects with very long time horizons inevitably entail market risks, or uncertainties about future market conditions and the price that a project's output will command over the payback horizon, Kwoka added.

Projects that are heavily dependent on some particular input also entail "cost risks" due to the uncertainty about the future cost of production and hence net revenues, Kwoka noted.

In addition, the 20-40 year lifespan of nuclear or coal units means that, even after revenues begin to accrue, their full realization is a very protracted process. Thus investors in some plants are in effect placing a bet that demand and cost conditions over the three- or four-decade period will justify the capital expenditures, Kwoka explained.

Kwoka reported that retail competition adds another risk, by creating uncertainty regarding future load and supply requirements for competitive marketers.

"As a result, they may be reluctant to enter into contracts obligating them to take fixed amounts of power, at least not without costly opt-out clauses," Kwoka reasoned.

Further evolution of the electricity sector may help moderate this source of uncertainty, suggested Kwoka.

"For example, integration of generators and retail suppliers - nascent in the United States but much farther along in the European Union - holds out the prospect of improving information flows and the ability to coordinate operations between the principle non-monopoly players," Kwoka reported.

"Moreover, as the independent retail supply sector grows, it should allow retail suppliers to aggregate more diversified portfolios of customers. If these customers can be induced to enter into long-term contracts committing them to particular suppliers, that would further enhance the predictability of load and create better opportunities for contracting," Kwoka noted.

Up to this point, however, small end-use customers have resisted contracts longer than two or three years, and larger load serving entities have not found suppliers willing to enter into long-term contracts, Kwoka observed.