Energy Choice Matters

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Munis, Industrials, Consumer Groups form "Grassroots" Effort to Reform Organized Markets

Publicly-owned utilities, industrials and various consumer groups have launched a new initiative to reform organized wholesale electricity markets.

Dubbed the Campaign for Fair Electric Rates, the grassroots campaign is to, "educate consumers, businesses and the media on the failures of restructured electricity markets; and organize the public to contact their senators and representatives."

The campaign wants Congress to pressure FERC into investigating wholesale electricity markets and, "take action to protect consumers."

The group believes, "restructuring of the wholesale electricity markets has not produced promised benefits and instead has harmed consumers and the economy."

"Fundamental changes made to the wholesale electricity markets have not produced competition; instead they have created exorbitant profits for many companies that generate electricity, excessively high electricity rates for consumers and insufficient investment in new power plants and transmission lines," the campaign says.

The campaign accused FERC of continuing to "ignore" repeated calls from consumers and businesses to investigate organized markets.

More from the campaign:

"Market rules allow generators to charge high rates for electricity regardless of the actual costs, even when consumers have already largely paid for the generating plants. Many states also deregulated the retail market structure, exposing consumers to the higher prices of these RTO-run

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Generators, Utilities Warn of Higher Costs from Bundling GHG Attributes with RECs

The bundled REC approach advocated by the Center for Resource Solutions (CRS) promises to create barriers to renewable development and unnecessarily increase renewable energy costs, the Independent Energy Producers Association told the California PUC yesterday (R. 06-02-012).

CRS wants RECs to include avoided emissions (particularly avoided greenhouse gas emissions), and the record in the tradable REC docket was re-opened to consider CRS's motion (Matters, 6/9/08).

IEP argued that CRS's bundled approach fails to appreciate the regulatory paradigm promulgated in California pursuant to SB 1078 (the RPS) and AB 32 (GHG emissions reduction).

While the bundling of GHG attributes within the RPS REC may make sense in a world in which load-serving entities (LSEs) are the "point of regulation" for AB 32 implementation, the PUC has recommended that the Air Resources Board (ARB) use a "deliverer" paradigm in which individual generators are the obligated entities, or the points of regulation. Under RPS, LSEs are the point of regulation.

Bundling avoided GHG emissions with RECs could actually force renewable generators to buy carbon offsets for compliance with AB 32, IEP added, because of a series of findings and recommendations by the PUC.

Renewable generation that ARB determines has GHG emissions subject to regulation under AB 32 should be treated like any other generation, in that the deliverer would have a GHG emissions compliance obligation, IEP pointed out.

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Reliant Energy Suggests Lowering ERCOT Shadow Price Cap to $2,500 as MCPE Solution

Reliant Energy proposed lowering ERCOT's shadow price cap to $2,500, its level prior to March 1, 2008, to achieve the PUCT's intention of preventing the MCPE from exceeding the bid cap of $2,250/MWh (Matters, 6/12/08).

Reliant's proposal will be discussed at today's emergency TAC-WMS meeting along with recommendations from the Independent Market Monitor and PUCT senior advisor Dr. Shmuel Oren.

On March 1, the shadow price cap was increased from $2,500 to $5,600. Lowering it back to $2,500 can be done immediately and does not require a PRR or system changes, Reliant noted.

If the $2,500 shadow price cap had been in place in lieu of $5,600, it would have saved the market hundreds of millions of dollars, Reliant added.

Returning to the $2,500 shadow price cap would allow the market breathing room while ERCOT continues to improve its zonal congestion management operations, Reliant pointed out. The $2,500 cap limits prices from increasing above the system offer cap and lessens the cost of congestion while maintaining the right incentives to minimize congestion. Reliant's proposal would still allow the system offer cap to be reached in true system scarcity conditions.

Reliant sees no valid reason to automatically generate MCPEs based on shadow prices of $5,600 when a lower shadow price cap does not alter price signals to build new generation.

Signals to invest in new resources are driven by long-term expectations for pricing, Reliant reminded. Since ERCOT is scheduled to move to a nodal market in 2009, expectations of prices under the nodal design (not zonal prices) are driving new investment, Reliant concluded.

The $2,500 shadow price cap addresses what happens when the bid stack runs out, and would not have had a measurable impact in other intervals. Other than the intervals automatically set equal to the cap, no shadow prices exceeded $1,360 during May or June for the Commercially Significant Constraints (N-S, N-H, and W-N) that have caused most of the problem. Across all CSCs and intervals since March 1 there have only been four interval/constraint pairs with shadow prices between $2,500 and $5,600, Reliant reported. Thus, other than the 192 intervals where the shadow price cap of $5,600 was invoked, a shadow price cap of $2,500 would not have affected 99.99% of the remaining intervals.

If the $2,500 shadow price cap had remained in place, bids would not have been "stranded," long-term price signals would not have been lessened, and consumers would not be paying very high congestion costs unrelated to true scarcity conditions, Reliant concluded.

Independent Market Monitor Dan Jones, in a presentation regarding his proposal, noted that to his knowledge, the conditions which occurred in May (a handful of intervals in which two zonal constraints were simultaneously binding, one or more of which was unresolved), have never before existed in the ERCOT wholesale market.

While the May events led to MCPEs in the range of $4,500/MWh, Jones added that under more severe circumstances not yet experienced, some zonal MCPEs could exceed $6,000/MWh, without changes to the shadow price cap.

Calif. PUC Approves Alternate Baseline Methodology for PG&E Demand Response

The California PUC approved a change to the customer baseline methodology in three demand response contracts between aggregators and Pacific Gas & Electric, which also adds 13 additional megawatts of load response for the summer of 2008 (A. 07-02-032).

The alternative baseline method, available only this summer, is intended to test whether it is more accurate than the baseline estimation method specified in the initial contracts, and whether the new method leads to increased customer participation and increased demand response.

The initial contracts used a "3 in 10" baseline to estimate what the customer's usage would have been in the absence of curtailment. The "3 in 10" baseline methodology uses the three highest usage days of the past 10 days similar to the event day to estimate baseline usage.

Concerns were raised that customers whose load is temperature-sensitive, either because of

HVAC load or temperature-sensitive manufacturing processes, may not be most accurately measured by a traditional "3 in 10" baseline methodology. In response, PG&E proposed testing a temperature-sensitive baseline for settlement purposes, to determine whether the proposed modified baseline would allow temperature-sensitive customers who might not otherwise participate in the demand response programs to do so.

The new baseline methodology will add a "morning-of" adjustment to the current "3 in 10" baseline methodology. Under the "morning-of" baseline, participants' morning electricity usage for the four hours before an event is called will be used as a factor to adjust the "3 in 10" baseline in calculating the participants' baseline usage, and therefore their overall curtailment during an event.

Customers may choose to use either the current baseline or the "morning-of" methodology for calculating settlement baselines. But to prevent gaming, once a customer chooses to be measured by the "morning of" method, that customer is locked into that baseline methodology for the duration of the summer program season.

Under the "morning-of" methodology, any adjustment to the baseline is limited to plus or minus 20% of the existing baseline -- another measure meant to prevent gaming.

Three (EnergyConnect, Energy Curtailment Specialists, and EnerNOC) of the five demand response providers with contracts with PG&E agreed to contract amendments to test out the new baseline methodology. AER and Ancillary Services Coalition did not agree to changes.

The amended agreements also require the three participating sellers to increase their commitment levels for August and September of 2008 by 15%, resulting in an additional 13 MW of demand response during those critical summer months.

Briefly:

Michigan Re-Regulation Bill Heads to Full Senate

HB 5524, which would among other things limit retail choice to 10% of utilities' sales, was reported out of the Michigan Senate's Committee on Energy Policy and Public Utilities and goes to the full Senate for a vote. Also under the bill, utilities would not be forced to seek competing bids for new generation, and would be directed to develop integrated resource plans (Matters, 4/18/08).

18-GW CREZ Scenario is Focus of Two Commissioners

PUCT Commissioners intimated greatest support for the 18-GW Competitive Renewable Energy Zone scenario (Scenario 2) after two days of hearings on CREZ designations (33672, Matters, 5/27/08). Chairman Barry Smitherman closed the hearing by stating while he had been leaning to 24-GW Scenario 3 ($6.38 billion), after hearing and understanding some of the risks, he is now leaning to the 18-GW, $4.93 billion Scenario 2, or less. Commissioner Paul Hudson also said his focus is on Scenario 2, and stated that the low-cost, but not expandable, $2.95 billion Scenario 1A (12 GW) is "off the table" for him. The 24-GW scenario is probably best left to a future Commission, Hudson added, who is stepping down in August.

Nooruddin Investments Gets REP Certificate

The PUCT approved a REP certificate (10161) for Nooruddin Investments (Matters, 5/22/08, 5/12/08, docket 35659).

GIM Retail Energy Wants REP Certificate to Serve Equistar After Buying Cogen Plant

GIM Retail Energy (subsidiary of Global Infrastructure Partners) is seeking an Option 2 REP certificate from the PUCT to serve Equistar Chemicals. GIM affiliate GIM Channelview is buying Reliant Energy's 803-MW Channelview cogeneration plant, which is sited at Equistar's Channelview Complex. As part of the sale, GIM is being assigned a current supply agreement between a Reliant affiliate and Equistar for part of the cogenerator's output, prompting the need for the REP certificate. GIM Channelview is purchasing the bankrupt cogen plant for $500 million, which eclipsed a previously announced deal for the plant.

Study Blames Deregulation For High Conn. Prices

Using EIA average data, a study in the University of Connecticut's quarterly journal The Connecticut Economy concludes deregulation is to blame for the state's high power prices. The study compares 1990 prices to 2007 data to attribute higher prices to deregulation, though the state didn't approve restructuring until 1998. The study, without analysis of SOS prices, particularly blames the flawed SOS auction process for high prices (http://cteconomy.uconn.edu).

Calif. PUC OKs SJVPA-PG&E Pact On CCA Complaint

The California PUC approved a settlement between Community Choice Aggregator San Joaquin Valley Power Authority and Pacific Gas & Electric which resolves a SJVPA complaint over PG&E's marketing and also sets standards for how PG&E can market its service to retain customers within SJVPA's territory (Matters, 6/10/08).

PG&E Mover Referral Service Gets Nod

Pacific Gas and Electric received approval for its Mover Service Program (Matters, 5/14/08), a value-adding referral program that facilitates customer selection of telephone, internet, cable or satellite television, home security, trash removal and other such services when setting up new electric service. The PUC's order places certain restrictions on how PG&E customer service reps can market the referral service and prevents PG&E affiliates from providing any services offered or acting as the vendor running the program.

Luminant Hires Texas Secretary of State

Luminant named Texas Secretary of State Phil Wilson as senior vice president of public affairs. Wilson has been Secretary of State for about a year and was previously Governor Rick Perry's deputy chief of staff. Wilson also served as chairman of the governor's Competitiveness Council.

Reliant Energy Sponsoring YMCA Efficiency Program

Reliant Energy has signed on a presenting sponsor of the inaugural YMCA of Greater Houston's Cool Days, which includes number of activities that will help create awareness about energy efficiency.

Surges and Circuits

Power Surges

Steve Larsen: Gets a higher paying job with much, much fewer headaches and negative media attention.

Push

Consumers Energy Retail Electric Market: Even though POR wasn't approved, the Michigan PSC's ruling safeguarding shopping C&Is from subsidizing residential customers probably keeps this market from completely dying -- although the reprieve might be short lived depending on what the state senate does on a pending re-regulation bill which just went to the full chamber.

Short Circuits

Commerce Energy: With its unhedged position, it could be one of the biggest beneficiaries from an ERCOT congestion/MCPE fix, but still has to work through exceptionally high bad debt and customer churn.

MMC Energy: Big loss at FERC in complaint over aggregated units' participation in spinning reserve market.

DRA: We have no problem with DRA wanting to express a view that a return to direct access could cause volatility and create a need to address capacity procurement issues, but its comparison to recent conditions in ERCOT (Matters, 6/12/08) was cursory, at best, and wasn't needed to justify DRA's point. While we assume some of the imprecision came from DRA wishing to provide a high-level view using California language to describe ERCOT market elements, we have a few issues with some of DRA's characterizations. Particularly DRA blaming retailers' inability to recover sufficient income through "tariffed" rates to pay for their short-term energy supply obligations. While one could consider ERCOT's credit requirements under the umbrella of "supply obligations," we think DRA gives the impression that a lack of hedging and volatile prices alone caused certain REPs to default, rather than the accompanying higher credit obligations REPs had to meet because of higher MCPEs. It seems some of the

REPs could have paid for the actual power needed, but not the security required.

Second, DRA states, "An important note is that Texas has specifically designed its energy market to feature substantially higher IOU energy prices than those available through ESPs. This market design element was intended to incent customers to patronize ESPs rather than IOUs."

No matter how the term IOU is construed to fit the ERCOT market (as equivalent to POLR, AREP, backstop supplier, or default supplier), DRA's characterization isn't supported.

In today's world without a price to beat and only POLRs, the conclusion drawn by DRA (the PUCT wants customers to patronize ESPs/REPs) makes no sense because POLRs *are* REPs, so the PUCT is not incenting the customer to buy from one type of company rather than another. There isn't even one specific POLR a customer would be guaranteed to go to, ever since the PUCT created its cascading POLR system.

DRA's comparison also doesn't fit today's world if it was referencing rates for non-shopping, legacy AREP customers (somewhat similar to default service) rather than POLR customers. With the price-to-beat period over, the PUCT no longer sets rates for the former AREPs, and customers who haven't switched can be charged rates selected by the AREP. As a consequence, those "IOU" customers (in the sense they defaulted onto an AREP in 2002 when competition started) are now likely to be charged rates *lower* than, or comparable to, prices available through other REPs/ESPs, because the AREP wants to prevent losing those customers to a competitor and aren't bound by a regulated rate which prevents the AREP from matching lower offers. Thus, customers who haven't made a choice (comparable to IOU customers under DRA's scenario) are not being charged "substantially" higher rates than what's available from ESPs/REPs.

If DRA was referring to the price-to-beat/AREP era, the comparison still falls flat. Although, at times, the price-to-beat may have been higher than the market, it rarely was "substantially" higher. Additionally, because of the twice annual limit on price-to-beat adjustments, and various regulatory settlements with some AREPs that prevented an increase, there were times (such as the summer of 2005 and immediately after the fall 2005 hurricanes) where the price to beat was lower than prevailing market rates due to rising gas prices, which was prompting customers to remain with their AREPs. REPs from the period can attest to the severely restricted margins and losses they suffered because the "IOU" rate (price to beat) was actually lower than the ESP/REP rate during these times.

Fair Rate Campaign ... *from 1*

markets. In these deregulated states, more than 45 million customers are paying 56 percent more than the rest of the country for electricity."

Among the groups fighting the "growing crisis" caused by organized markets are APPA, ELCON, Power in the Public Interest, Public Citizen, Portland Cement Association, Industrial Energy Users Ohio, Illinois' Citizen Utility Board, NEPOOL Industrial Customer Coalition and PJM Industrial Customer Coalition, along with various municipal/public power and consumer groups.

RECs and GHG ... *from 1*

Meanwhile, RPS Standard Terms and Conditions for RPS procurement require parties entering into an RPS contract with Commission-jurisdictional entities to convey the "environmental attributes" to the purchaser.

The Commission also recognizes "null renewable power" as renewable resources that have transferred their renewable attributes through the sale of RECs. Null power would likely be assigned a generic GHG emissions profile.

As a result, the renewable generator, if the conveyance of environmental attributes included the transfer of GHG attributes, risks being required to procure GHG allowances to match an imputed emissions factor assessed for unspecified, null power, IEP pointed out.

That outcome would create the potential for the "ultimate paradox," IEP cautioned -- renewable generators wishing to build today to help meet RPS and GHG goals are treated in the future as higher emitting, unspecified resources competing for scarce GHG allowances.

"Clearly, the potential for this paradox creates a measure of investment uncertainty that will either forestall new infrastructure development or increase the cost of renewables beyond what would otherwise occur," IEP concluded.

Bundling GHG emission attributes with RECs will simply raise the price of RECs to include the associated cost of purchasing GHG offsets for null power, the joint utilities added (Southern California Edison, Pacific Gas and Electric, PacifiCorp, Sierra Pacific Power, and San Diego Gas & Electric).

If renewable generators are unable to incorporate the full RPS and AB 32 regulatory value into their RECs, generators will likely refuse to sell RECs and only sell a bundled energy product.

Thus unbundled, tradable RECs should not include any avoided GHG emissions associated with renewable generation, the joint utilities concurred.

Underlying power which created the REC should retain its original renewable GHG emissions profile, utilities added.

A practical problem with including GHG emission reductions with RECs is that a renewable project in and of itself does not create GHG credits or offsets, utilities pointed out.

That view was echoed by TURN. A REC only represents the creation of renewable energy, TURN observed, and is not in any way, shape or form a GHG offset or some measure of avoided emissions.

Renewable power must displace some other generation that is either not dispatched (because the renewable generator is a must-take resource) or not built (because there is additional renewable capacity) for emissions to be reduced, TURN explained. While renewable generation might displace fossil generation and reduce associated emissions, it is quite possible that the renewable generation could displace nuclear or hydro generation, thus not changing the GHG emissions profile.

Thus, a REC should never be presumed to include "avoided carbon emissions" and should not be used as an offset for any future GHG compliance purposes, irrespective of the nature of the GHG regulatory mechanism adopted under AB 32, and irrespective of whether the REC is additional to any existing compliance mechanisms, TURN contended.

However, TURN does agree with CRS that a REC includes all the environmental attributes associated with the production of renewable energy. A REC used for RPS compliance should not be sold separately in another market due to any other unbundled "environmental attribute" of the renewable power, TURN added.

But the Union of Concerned Scientists (UCS) urged the Commission to consider the downstream AB 32 policy implications of adopting a REC definition that allows avoided emissions to be separated from all the other attributes associated with the generation of one unit of renewable electricity.

If the avoided GHG emissions of renewable generation are recognized by the Air Resources Board as a tradable emissions commodity, entities that are subject to both the RPS and the first deliverer point of GHG regulation could in essence be obligated to pay twice for the environmental benefit created by the same renewable resource; once for an RPS-compliant REC, and again for the GHG emissions attribute, UCS cautioned.

UCS does not support a policy outcome that would require renewable generators to acquire allowances to match their null power emissions but suggested such an outcome can be "easily" averted even if the Commission bundled GHG offsets with RECs, as long as any GHG emissions cap-and-trade program that is established within the AB 32 implementation process sets the cap level to account for the avoided emissions resulting from RPS compliance.

If the cap is set at a level that accounts for the GHG emissions reductions of the RPS, it will not be necessary for the Air Resource Board or Commission to assign a negative avoided emissions value to RECs or a positive emissions value to null power, since the avoided emissions of RPS generation would already be reflected in the cap, UCS reasoned.

Fire Threatens CA-OR Tie

The California ISO has reduced the flow of power on two of the three lines that comprise the California-Oregon Intertie due to the Humboldt Fire near Chico, Calif. The fire has also caused two 115 kV transmission lines to trip out of service, CAISO reported. Those two lines feed power into the city of Paradise and the surrounding area. The loss of those two lines caused a power outage in that area representing approximately 20 MW of load. Pacific Gas & Electric is working to repair damage to one of the two lines but it is unclear at this point when power can be restored.