

Energy Choice Matters

June 16, 2008

FERC Finds Midwest ISO Market Services Proposal Deficient, Orders More Info

The Midwest ISO's proposal to extend the benefits of its energy market to less than full Transmission Owner (TO) members is deficient, FERC found, but the Commission conditionally accepted MISO's reliability and seams service offerings that are part of its Western Markets Proposal (ER08-637).

Under the market service proposal, MISO would make its day-ahead and real-time energy and operating reserve markets available to entities that are not signatories to the Midwest ISO TO Agreement. Several stakeholders, including power marketers, had raised concerns that the proposal would encourage entities to not become full MISO members and could even prompt current members to withdraw from the TO agreement in favor of the new service, under which entities would not be responsible for numerous cost sharing arrangements (Matters, 4/8/08).

FERC ruled that the market service proposal fails to specify the allocation and rate design for prospective market service customers' recovery of costs associated with the new Market Integration Transmission Service (MITS) and MITS-comparable from customers under their respective OATTs. The Commission ordered MISO to address concerns that MITS and MITS-comparable charges could create incentives for generators to offer above (or below) their marginal costs and thus create an inefficient dispatch and/or result in generators and load being worse off for having their bids or offers accepted for purchases from or sales into the Midwest ISO markets.

The Commission ordered MISO to answer several questions regarding the market service proposal, which will allow FERC to issue a future order on the plan.

The market service proposal, "raises a number of broad policy issues that the Commission will
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IMM MCPE Recommendation Goes to ERCOT Board

TAC and WMS unanimously recommended Independent Market Monitor Dan Jones' proposal to achieve the PUCT's intent of capping the ERCOT MCPE at \$2,250/MWh. The ERCOT board is to consider the recommendation tomorrow (Matters, 6/12/08).

Jones' proposal would reduce the commercially significant constraint (CSC) shadow price cap from \$5,600/MW to \$5,000/MW and implement a \$2,250/MWh cap on MCPE and an MCPE price floor of negative \$1,000/MWh. If the MCPE is adjusted either due to the floor or cap (the adjustment could only be ex post), ERCOT would implement a CSC shadow price adjustment administratively for any binding CSCs.

TAC/WMS rejected Dr. Shmuel Oren's two-step proposal the relied on virtual load response because it could not be implemented quickly due to necessary software changes. Reliant's proposal, which would have cut the shadow price cap to \$2,500 instead of \$5,000 as under the IMM plan, was rejected because stakeholders felt it had the potential to reject more offers from generators than under the IMM plan.

Among stakeholder concerns voiced at the joint TAC-WMS meeting was unease about a precedent being set by a price cap, and whether the decision could later be cited in attempts to cap nodal prices. Some generators noted that the proposals stray from marginal cost pricing. Power marketers also expressed concerns if changes resulted in MCPEs not being available in real-time.

Subcommittee members also wondered whether ERCOT has authority to implement the IMM and
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PUCT Opens Dockets on REP Disclosures, Certification

The PUCT staff opened several dockets Friday to examine REP certification and disclosures as well as associated consumer protections.

Project 35768 would house a rulemaking relating to REP disclosures to customers. Staff had reported it would open a rulemaking to further refine the issue of fixed versus variable priced contracts and reviewing whether changes to P.U.C. SUBST. R. 25.475, relating to information disclosures to mass market customers and terms of service, are needed (Matters, 5/23/08). The docket may serve as a forum for various consumer group proposals to boost REP disclosures and transparency as well, such as Texas ROSE's report card proposal.

Project 35767 would house a rulemaking relating to certification of REPs. Chairman Barry Smitherman has indicated that an adjustment to REP certification standards, particularly financial qualifications, may be appropriate since the market is mature and entry does not need to be facilitated as much (Matters, 5/30/08). REPs can currently obtain a certificate by showing \$100,000 in unused cash resources, a standard that has come under attack by consumer advocates including Texas Legal Services Center.

The staff also received a control number (35769) for a rulemaking relating to POLRs and another (35770) for its report to the 81st Legislature on advanced metering.

Lower Heat Rate Approved for ISO-NE DALRP

FERC accepted ISO New England's revised heat rate of 11.37 MMBtu/MWh that will be used to set the Day-Ahead Load Response Program (DALRP) minimum offer price (Matters, 5/7/08, ER08-830).

The Commission found the new, lower heat rate, which will replace the current 12.92 MMBtu/MWh starting July 1, to be just and reasonable because it will increase the number of days that DALRP offers would clear the Day-Ahead Energy Market, "without overly sacrificing baseline accuracy."

In April, FERC raised the DALRP price floor from \$50/MWh to \$121/MWh to combat what the

ISO considered phantom demand response (Matters, 4/7/08). The lower heat rate approved by FERC somewhat mitigates the higher price floor which limits the opportunity of demand resources to be dispatched under DALRP.

FERC rejected the NEPOOL Participants Committee's view that the new heat rate represented a change to the DALRP's original design and intent. FERC found the change to be consistent with its April order since it, "continues to restrict DALRP payments to periods of high LMPs while continuing to protect customers from being charged for services that are not in fact provided."

The Commission refused to direct the ISO to commence immediate stakeholder talks on the program, as requested by EnerNOC, since the ISO has committed to starting discussions in October. ISO-NE is to file a report with the Commission by February 16, 2009 detailing its decision to either terminate or continue the Load Response Programs, and include a review of the current customer baseline methodology and a timetable for implementing any changes necessary for demand resources to participate in its markets on a comparable basis to generating resources.

EnerNOC had also requested a June 1 effective date for the new heat rate, but that would require waiver of the 60 days notice required by section 205, which no party had requested in the proceeding. Thus FERC accepted the ISO's proposed July 1 start.

CMP Sees Need for Utility-Backed Supplies If Maine Leaves ISO-NE

Leaving ISO New England could prompt, "a return to the construction of regulated generation or long-term utility contracting for supply," Central Maine Power told the Maine PUC in its investigation of participation in the regional grid (2008-156).

Any decision by Maine to exit ISO-NE would introduce regulatory uncertainty, CMP noted.

Due to such uncertainty, "Maine would have to enter into long-term contracts with existing generators and, in the future, new entrants also, in order to ensure adequate supply in Maine," CMP reasoned.

Such long-term contracts could not be

entered into by current default service providers and would need to be backed in some way by utility or ratepayer commitments.

That would have consequences for retail choice and could prompt a long term move away from the competitive generation model for the state, CMP explained, thus entailing a return to the construction of regulated generation or long-term utility contracting for supply.

CMP reiterated its view that leaving ISO-NE would cost \$1-2 billion, as detailed in a previously filed report (Matters, 5/8/08).

Maine Public Service has no backup plan for its Maine Power Connection should the state decide to leave ISO New England and pursue either a stand alone grid or join the New Brunswick System, the utility told the PUC. MPS is counting on ISO membership, and accompanying cost socialization, for the Maine Power Connection which would link the isolated Northern Maine market with the New England grid. Leaving the ISO would sidetrack the connection "indefinitely," MPS said.

MPS believes the Maine Power Connection will address the "failed market" in Northern Maine, by giving suppliers easier access, while facilitating the development of hundreds of megawatts of wind power.

Texas Seniors Group Argues Seniors Don't Need Smart Meters

Because senior citizens, "don't need more devices to teach them how to conserve electricity," Seniors for Action urged the PUCT to exempt all seniors over 65 from having to receive and pay for advanced meters. The filing was made in the PUCT's generic project relating to implementation of advanced meters (34610), rather than CenterPoint's or Oncor's petitions for smart meter deployment plans.

Seniors, "are suffering enough with high rates in this confusing and artificially competitive market," Seniors for Action added.

"Texas seniors need lower electric rates, not more monthly expense for meters," the group concluded.

"If the advanced meters honestly provided real savings to consumers, the consumers would purchase them without hesitation. Instead, the consumer is being given no choice whatsoever," the senior group argued.

Powerex Favors Ending MRTU Prohibition on Decremental Bids

The California ISO's proposal to remove its existing prohibition on certain decremental energy bids (the DEC Bidding Rule) under its Market Redesign and Technology Upgrade (MRTU) may improve the operation of the CAISO's markets and should be accepted, Powerex told FERC (ER08-1011).

CAISO proposes to remove from Section 30.5.1(b) of its MRTU Tariff the prohibition on Scheduling Coordinators from submitting energy bids in the Hour-Ahead Scheduling Process (HASP) or the Real-Time Market (RTM) that have lower bid prices than the bid prices that cleared in the Day-Ahead Market.

The prohibition was originally intended to address potential gaming by Scheduling Coordinators.

But CAISO determined that the DEC Bidding Rule is no longer necessary, since it no longer effectively serves its original purpose.

Scheduling Coordinators seeking to exercise local market power could simply refrain from submitting DEC bids in the RTM, causing the CAISO to have to DEC the Scheduling Coordinator's Integrated Forward Market (IFM) schedule and pay the Scheduling Coordinator the -\$30/MWh bid floor price. The DEC Bidding Rule would not address this type of behavior, Powerex noted.

CAISO also determined there are legitimate business reasons why Scheduling Coordinators may wish submit DEC bids in the RTM at lower prices than the bid prices that were accepted in the IFM, but the DEC Bidding Rule did not make any allowances for lower DEC bids in these circumstances. Thus the presence of the DEC Bidding Rule could discourage the submission of DEC bids in the RTM, which could result in the CAISO having to make uneconomic adjustments of schedules in Real-Time, Powerex added.

Removal of the DEC Bidding Rule may therefore improve the functioning of the CAISO's RTM by helping to encourage the submission of sufficient economic DEC bids in the RTM, and minimizing the extent to which the CAISO must make uneconomic adjustments of Scheduling Coordinators' IFM Schedules, Powerex argued.

Accordingly, increased DEC bids would allow for more efficient operation of the market, avoid

unnecessary economic adjustments, and mitigate price outcomes that result from insufficient economic bids, Powerex observed.

Briefly:

MXenergy Inks Deal with Network Marketer

MXenergy entered into an agreement which designates multi-level marketer Zurvita (an Amacore Group subsidiary) as its exclusive network marketing seller for a three-year term. Zurvita markets Amacore health insurance products and related services, as well as services from other niche benefit markets. The agreement provides for cross-pollination selling of MXenergy products with Zurvita marketing to new and existing Zurvita customers.

ERCOT Short \$900K for June 12 Invoices

Due to recent defaults in the ERCOT market, ERCOT was short \$908,847.51 in paying out invoices to QSEs due on June 12. The amounts short by company are:

National Power of Houston	\$521,427.86
HWY 3 MHP (eTricity)	\$274,035.50
Sure Electric (Riverway)	\$64,433.14
Pre-Buy Electric	\$48,951.01

ERCOT will follow the "short payment" procedure stated in Protocol Section 9.4.4, Partial Payments, for payments being made to QSEs. Per the ERCOT Protocols, ERCOT will deduct ERCOT Administrative fees, and payments for Reliability-must-run (RMR) services from the amount received, and then reduce payments to all invoice recipients that are owed monies, except for monies owed for RMR services. The reductions will be made based on a pro rata basis of monies owed to each ERCOT creditor to the extent necessary to clear ERCOT's accounts on the payment date to insure revenue neutrality for ERCOT.

PUCT Staff Moves to Revoke eTricity Certificate

The PUCT staff filed a petition to revoke the REP certificate of eTricity (HWY 3 MHP) since the REP no longer has the capability to provide continuous and reliable electric services to its customers (35775). eTricity recently defaulted on its ERCOT obligations, prompting a POLR drop.

PUCT Staff Favors REP Certificates for Three PUCT staff recommended approving REP certificates for three applicants: Credit Suisse Energy (35676), Lehman Power Services (35671) and Bounce Energy (35670) (Matters, 5/15/08).

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need to examine in more depth before making a final determination on Market Service," FERC added. The Commission anticipates holding a technical conference to further consider the implications of the proposal and to address policy concerns and issues including whether the proposal encourages MISO members to remain members; whether it encourages or discourages market service customers to subsequently join the ISO as TOs; what impact will transmission rate pancaking by market service customers have on the operation and efficiency of the larger regional energy market; and what are the benefits of the market service proposal to customers in the current MISO footprint.

FERC also asked MISO to define the relationship between the Joint Coordinating Committee (JCC), which would govern the market service proposal, and Midwest ISO's existing stakeholder committees and processes. Stakeholders were asked to offer their input on the questions as well.

While requiring more information on the market service proposal, FERC determined that the reliability service and seams service proposed under the Western Markets plan provide for enhanced reliability coordination and coordination of congestion management across market-to-non-market seams on a broader, more uniform basis than currently exists today.

Placing those services under the Transmission and Energy Markets Tariff (TEMT) will lower the costs of administering those arrangements and address concerns about undue discrimination, FERC concluded. The obligatory redispatch in the new seams service will provide more options to reliably manage congestion and thus reduce redispatch costs, including unit commitment-related costs, for both Midwest ISO and neighboring areas, the Commission added.

The Commission conditionally approved the

formation of the Reliability Coordination Technical Committee to assist in the development and review of procedures and business practices manuals, resolve novel technical and operating problems, and provide a conduit for customers to relay and discuss reliability service issues.

FERC found that the proposal to offer seams service under the TEMT would help prevent undue discrimination, since all similarly situated customers will coordinate with Midwest ISO under the same terms and conditions. The seams service will also reduce Midwest ISO's costs by eliminating the need for it to negotiate and administer multiple individualized seams agreements.

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Reliant proposals, since under certain circumstances they would reject some offers which are legally made under the PUCT's resource adequacy rule, PUC Subst. R. § 25.505.

Charles Griffey, Reliant senior vice president of market design and regulatory affairs, observed that, politically, ERCOT isn't going to get to nodal if stakeholders don't solve the current problems in the market.