Energy Choice Matters

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# California Residential Rate Caps to Last Until 2022 Under PUC Draft

A rate cap for California residential customers must last until 2022 when Department of Water Resources bonds are paid off, unless legislation changes relevant sections of the Water Code, the California PUC would conclude in a draft decision released yesterday (A. 07-01-047).

The draft finding arises from a case in which San Diego Gas & Electric asked to phase-out by 2016 the residential rate cap, imposed by AB 1X and codified in Water Code § 80110, in order to bring rates in line with cost causation principles and ease the subsidization currently funded by larger customers.

Water Code § 80110 capped rates for Tier 1 and Tier 2 customers (residentials) at February 1, 2001 levels so long as customers used no more than 130% of their baseline consumption.

SDG&E told the Commission that the rate cap's main effect is to shelter the majority of residential electric customers from such costs as the effects of inflation and costs for new infrastructure, renewables, and public purposes programs - none of which were the focus of AB 1X. Larger electric customers have had to shoulder the burden of those new costs via a surcharge on electric commodity rates.

Unless the rate cap in Water Code § 80110 is amended by lawmakers, the rate disparity is likely to continue and grow until the bond charges are fully recovered in 2022, the draft observed. The draft suggested that legislators must balance the desire for affordable residential rates with the costs associated with public policy goals of energy conservation and the use of renewable energy, and the increase in the system and infrastructure costs.

Absent a phase-out of the rate cap, residential customers could face rate shock of 70% when the cap expires, SDG&E noted. About 70% of SDG&E residential usage is protected under the rate cap, representing 26% of SDG&E's total load

The rate cap, SDG&E noted, is contrary to the Energy Action Plan's goal of price transparency and

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# Columbia Gas Says MLIs Don't Give Shippers Primary Delivery Point Rights

Columbia Gas Transmission's plan to make changes to its Master List of Interconnections (MLI) would not involve any changes to any shipper's primary physical delivery points or associated Maximum Daily Delivery Obligation (MDDO), despite "misleading" protests by marketers and other shippers in two FERC dockets (RP08-401, RP08-403), Columbia asserted in separate answers at the Commission.

Marketers had protested that the MLI changes would abrogate contracts by forcing shippers to revise their primary delivery points and associated contract quantities (Matters, 6/18/08).

But Columbia claimed that marketers erroneously believe that MLIs endow shippers with primary delivery point rights when MLIs do not.

Virtual MLI scheduling points are not physical delivery points but rather are administratively created virtual scheduling points used to facilitate the nomination and scheduling process, Columbia asserted.

Primary firm delivery point rights are not established at such virtual points, but rather at the physical points of delivery on Columbia's system, Columbia explained. Columbia models its system and ultimately awards capacity at the actual physical points of delivery on the system, not on the basis of virtual MLI scheduling points, Columbia told the Commission.

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## Universal Enrolls Nearly 3,500 in Michigan During Last 3 Months

Nearly half of Universal Gas & Electric's new Michigan gas contracts signed from March 8 through June 12 were cancelled by customers without penalty under the 30-day window given to customers to cancel to enrollment, the marketer reported to the PSC (U-15509).

UG&E signed 9,162 contracts during that three-month period, with 4,158 (46%) of the contracts being cancelled within 30 days. About 37% of the contracts (3,412) are flowing with another 9% pending. LDCs rejected 6% (574) of the contracts, while UG&E permitted 197 of the contracts (2%) to be cancelled after 30 days because the contract had not yet flowed.

From those 9,162 contracts, UG&E only recorded 21 (0.22%) customer "contacts," which is a category that includes complaints as well as requests for termination or contract inquiries. Only 16 (0.17%) of the new contracts generated what UG&E considers complaints, or one complaint per 539 contracts. UG&E reported that ratio of total complaints to total contracts is decreasing, as is the ratio of contacts to new contracts.

When including customer contacts related to existing contracts, UG&E recorded a total of 2,399 customer contacts during the quarter, or 0.29% of UG&E's total contracts written to date (214,142). Of those contacts, UG&E categorized 845 as complaints, or 0.10% of all contracts written to date.

UG&E revealed that it is flowing to 48% of customers (102,387) who initially signed a contract. Overall, 21% of customers (45,212) who sign a contract have cancelled within 30 days, while 27% have been dropped or rejected.

UG&E also pointed out that MichCon's July GCR rate will be $1.076, higher than the $0.99 and $1.049 prices most UG&E customers in MichCon's service area are paying.

## PUCT May Look at “Early Warning” System for Troubled REPs

The PUCT may look at a deferred payment plan for POLR customers and an "early warning" system to alert the market about distressed REPs, Chairman Barry Smitherman told lawmakers in testimony before the House regulated industries committee.

Smitherman suggested that some form of deferred payment plan, similar to those currently available under other sections of the PUCT's customer protection rules, should be available for POLR customers to ease their transition.

The PUCT rulemaking on REP certification requirements could also serve as a forum to review proposals for an early warning system to alert the market or customers that a REP may be in trouble, so they can switch before a POLR drop occurs. Although Smitherman suggested the Commission may need more authority to implement such a system, the rulemaking could serve as a platform to discuss what such warning indicators would look like, and to establish how the PUCT could require REPs to report more financial and other data.

Smitherman cautioned that identifying troubled REPs could lead to a self-fulfilling prophecy by encouraging customers to migrate to a new provider, worsening the REP's condition.

The Commission will also examine how to better protect customer deposits so that customers can recover them when their REP exits the market.

Smitherman noted that the financial requirements for REP certification must strike an appropriate balance so that currently viable REPs aren't forced out of the market by new rules. Overly burdensome requirements could leave just a few dominant players in the market and reduce competitive pressure on prices, Smitherman observed.

## Calif. IPPs, Utilities Debate Importance of S&P

The California PUC should not give "excessive weight" to the views of a single ratings agency regarding one element of procurement risk while under-weighing all other procurement risks when evaluating bids in least-cost procurement, the Independent Energy Producers Association told the Commission in a brief on debt equivalency (R. 06-02-013).

IEP was referring to Standard & Poor's, which has an explicit and well-publicized approach to debt equivalency, while Moody's method is more fluid and Fitch considers debt equivalence in a more implicit manner.

Although S&P's quantitative approach to debt equivalence provides a "seemingly easy" way to address the issue, S&P is not the only credit ratings agency, and the different agencies have different assessments of the risks of cost recovery presented by PPAs, IEP noted. Moody's and Fitch have determined that California's assurances of cost recovery for PPAs essentially eliminate the financial risk of PPAs for utility bondholders, IEP argued. S&P continues to find some risk for IOUs' bondholders that PPA costs will not be fully recovered in rates, and accordingly assigns some financial risk to the IOUs' PPAs. All three rating agencies recognize that, beyond any financial risk, PPAs allocate other procurement risks to third parties and away from bondholders (and ratepayers), as compared to utility-owned alternatives, IEP added.

But San Diego Gas & Electric noted S&P credit ratings are "extremely important" to investors and downplayed the need to consider Moody's and Fitch's approaches. "If S&P performs a distinct analysis related to PPAs, this is the credit environment that California utilities face and it cannot be ignored, diminished, or dismissed," SDG&E argued.

Southern California Edison added that if there is a disagreement among the rating agencies about creditworthiness, "fixed-income investors give more weight to the lower rating." Thus approaches to debt equivalency which result in lower ratings must be given greater significance.

## CenterPoint Favors Update to PUCT Discovery Rules

To increase administrative efficiency, CenterPoint Energy recommended that the PUCT reduce the scope of discovery and amount of time allowed for interventions filed in proceedings, in making several suggestions in changes to the Commission's Procedural Rules (35576).

"In order to avoid waste and unnecessary burdens on all parties, discovery should generally be limited to 'material facts in dispute,' rather than the 'subject matter' of the proceeding," CenterPoint suggested.

The term "subject matter" is so vague that it effectively provides no meaningful limitation on the scope of discovery, CenterPoint observed. There is no reason to conduct discovery on facts that are not in dispute, or that are not material to the case, CenterPoint contended. The parties and Presiding Officer would identify the "material facts in dispute" during an early pre-hearing conference.

The current standard intervention period of 45 days is "unnecessarily long," CenterPoint said, and delays cases from progressing in a timely manner. CenterPoint recommended a 30-day intervention deadline.

CenterPoint also favors permitting electronic filing without the need for hard copies, at the option of the filing party.

## *Briefly:*

**UI Explains Procurement Roadblocks to Seasonal Rates**

United Illuminating reported it may not be feasible to adjust default supply procurement schedules to accommodate the Connecticut DPUC's draft order to create seasonal generation rates (Matters, 5/12/08). When UI argued that the draft order would conflict with and constrain its procurement practices (Matters, 5/30/08), the DPUC asked if it would be possible to overcome the problems by shifting procurements (05-06-04RE04). UI responded yesterday by noting that its current procurement periods were chosen to mirror the commercially available time period for which products are available in the wholesale markets. "Especially for future time periods, there may not be a corresponding wholesale market product that would align with UI's procurement period," if it had to accommodate seasonal rates. UI also noted that since it has constructed a laddered portfolio, it has already bought power for some future periods, which means creating a summer seasonal rate would conflict with those obligations.

**ICC Takes More Shots at PJM Postage Stamp Rate**

The Illinois Commerce Commission continued its crusade against socialized transmission costs in PJM yesterday, using a filing regarding assignment of cost responsibility for five socialized projects (ER08-1065) to rail against the cost sharing. The cost allocation would charge ComEd customers about $3 million for, "projects that the ComEd zone did not cause to be incurred, with no corresponding benefits to the electricity customers located in the ComEd zone," the ICC argued, referring to upgrades being built by Allegheny Power, PP&L, Dominion and Penelec. That brings the grand total of such costs to ComEd ratepayers to nearly $1 billion, the ICC reported. FERC has denied several similar protests from the ICC in Opinion 494 and derivative decisions, and the ICC has appealed Orders 494 and 494-A to the Seventh Circuit Court of Appeals.

**PUCT OKs Texpo Trade Name Changes**
The PUCT accepted Texpo Power's request to add the trade name Southwest Power & Light to its REP certificate and discontinue use of the trade name TexPower Electric Company (35733).

**McCain Talks Smart Meters**
Smart meters got a boost from Republican nominee John McCain during a speech in Santa Barbara, Calif, yesterday. McCain argued that smart meter deployment is needed "to save both money and electrical power for our people and businesses." Says McCain, "These new meters give customers a more precise picture of their overall energy consumption, and over time will encourage a more cost-efficient use of power." McCain also highlighted the need for a " serious investment" in transmission to link remote generation with demand and observed that, "Energy efficiency is no longer just a moral luxury or a personal virtue." McCain also supports new nuclear plants and investing $30 billion over 15 years on clean coal development.

## *Calif Rate Caps ... from 1*

cost causation. The cap prevents effective dynamic pricing and discourages energy efficiency, SDG&E added.

But the Commission's hands are tied by Water Code § 80110, the draft concluded.

Under the code, the cap must remain, "until such time as the [water] department has recovered the costs of power."

That won't occur until all the bond charges arising from DWR's power procurements are paid off, which will be in 2022, the draft found. Since the bonds represent debt incurred, "for the purposes of paying the cost of electric power," and are specifically included as part of DWR's revenue requirement, the phrase "costs of power," as used in Water Code § 80110, refers to both the power charges and the bond charges that are paid by utility customers to allow DWR to recover its revenue requirement, the draft explained.

Even if DWR stops physically supplying power under the contracts as they expire, or are novated or assigned to another party as is being debated, the collection of bond charges will prevent the rate cap from being lifted, the draft observed.

The draft also rejected an alternate suggestion to switch residential customers to SDG&E's residential Time-of-Use schedule (Schedule DR-TOU) to alleviate the subsidization paid for by larger customers.

Because of the rate cap, if customers were moved to Schedule DR-TOU, they would have to be charged the Time-Of-Use rates that existed in February 2001, the draft concluded. Those rates only had a small price differential based on time, and would create a large revenue shortfall stemming from residential service, thus not solving the subsidization problem.

Customers could not be moved onto the current Schedule DR-TOU prices because such a move would increase customers' rates, which is prohibited by the rate cap, the draft noted.

## *Columbia MLI ... from 1*

Since virtual MLI scheduling points have no effect on any primary firm physical delivery point rights, changes to the virtual MLI scheduling points do not constitute either a modification of Columbia's terms and conditions of service or a unilateral abrogation of contracts, Columbia reasoned.

After the new virtual MLI scheduling points are implemented, shippers will have the exact same primary physical delivery points and MDDO rights that they have today as set forth in their firm transportation service agreements, Columbia asserted. The only thing that might change is the number of nominations the shipper may be required to submit in order to deliver gas to their virtual MLI scheduling points, Columbia concluded. But requiring a more precise nomination, "simply does not constitute contract abrogation," Columbia contended.

Although each shipper's transportation service agreement establishes the shipper's primary physical delivery and receipt point rights, Columbia does not currently require shippers to submit "point to point" nominations, i.e., nominations that list the specific physical points of receipt and delivery. Instead, "unlike almost every other major interstate pipeline," according to Columbia, Columbia has permitted shippers to submit nominations to the virtual MLI scheduling point - a virtual representative of the physical point in the contract and other physical points in a common location.

Columbia reported that it has no need for the MLI virtual scheduling point scheme; it could operate its system and provide firm and interruptible services if the MLI function were abandoned altogether and instead all shippers nominated from physical receipt to physical delivery point. "Ideally, point to point scheduling would provide the greatest understanding of shipper behavior on Columbia's system, and hence, a better understanding of the stresses such behavior places on the system," Columbia observed.

But, "[i]n order to continue to accommodate its shippers, Columbia would rather avoid such a significant move and instead continue to provide the significant shipper-friendly flexibility that the virtual MLI scheduling points allow," Columbia told FERC.

However, for the sake of system functionality and to mitigate the potential for service disruption, Columbia wants to better refine virtual MLI scheduling points. In doing so, Columbia is not unilaterally seeking to change primary physical points listed in customer service agreements, it assured the Commission.

Columbia's planned changes to the virtual MLI scheduling points will ensure that shipper behavior associated with nominations and scheduling can be better communicated to Columbia, thereby allowing Columbia to anticipate the impact of such nomination and scheduling on the physical points and pipeline segments of Columbia's system, Columbia noted.

Columbia claimed that changes in MLI scheduling points will benefit all shippers by reducing the geographic impact of any corrective action Columbia must take while at the same time improving the flexibility of firm secondary and interruptible shippers.

Currently, when Columbia is required to take corrective action on its system, such as by restricting non-firm flows or requiring primary-point use only of contracts, it does so throughout an entire Market Area. Allocations of capacity at the more detailed level made possible by the expansion of virtual MLI scheduling points will give Columbia a greater ability to limit any restrictions to the specific pipeline segments that are affected, it explained.

Columbia's tariff expressly provides Columbia with the right to make changes to the virtual MLI scheduling points without prior Commission approval, Columbia added. In 1999 it exercised that tariff authority to subdivide 28 of its existing virtual MLI scheduling points into 80 new virtual MLI scheduling points.

Columbia also asserted that it is not proposing to change any shipper's existing delivery point entitlements. And the proposed tariff revisions will not have any effect on Columbia's existing capacity release or secondary point tariff provisions, Columbia stressed.

Columbia also withdrew its proposal to implement a queue process for handling MDDO or point shift requests that had a July 31, 2008 deadline. If any shipper has a desire to change the MDDO or primary physical delivery point designations in their existing contracts, those requests will be handled on a first-come, first-served basis in accordance with its general terms and conditions. Columbia is not unilaterally requiring any changes to a shipper's primary firm delivery points or associated MDDOs, it told FERC.