Energy Choice Matters

July 2, 2008

Retailers Urge BPU to Lower Hourly-Pricing Threshold to Unlock Efficiency, Green Innovation

Innovative demand response, energy efficiency and green retail electric products can only be developed in a market where customers see market-reflective prices, Hess Corporation told the New Jersey BPU in its investigation of lowering the CIEP hourly pricing cutoff to 750 kW from 1,000 kW in 2009 (ER08050310).

Hess noted the state's draft Energy Master Plan contemplates setting the real-time pricing threshold for C&Is at 600 kW by 2010 and 500 kW by 2012, to help achieve a 20% reduction in peak demand by 2020.

Hess pointed out that the threshold for hourly pricing is 600 kW in Maryland, 300 kW at Duquesne Light in Pennsylvania, 400 kW at ComEd in Illinois, and is or proposed to be 500 kW at four utilities in New York. Those market-reflective default service prices have allowed those markets to leapfrog New Jersey in attracting competitive suppliers and the attendant innovative products offered to customers.

The Retail Energy Supply Association added that with hourly pricing, customers can make smart decisions to conserve, curtail or shift load usage at times of peak demand. With real-time pricing, third party suppliers can examine a customer's usage patterns to develop a package of energy products and services that best suit that customer's needs. Thus, hourly pricing marks the pathway for greater customer benefits, RESA argued.

But the Division of Rate Counsel sees insufficient justification to lower the CIEP threshold. Current policy allowing customers under 1,000 kW to opt into hourly pricing is sufficient, the Rate Counsel

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FERC Updated on Regional Wholesale Markets

All options are on the table to fix the "capacity problem" in PJM, CEO Terry Boston told FERC's technical conference on regional wholesale electricity markets.

Much of the conference focused on previously reported findings and recommendations from various state of the market reports, but panelists did share some new insights.

For example, Boston added that PJM is working on enabling energy efficiency resources to bid into RPM by the next auction.

ISO New England CEO Gordon van Welie and Market Monitor Hung-po Chao reiterated that wholesale and retail prices need to be better linked, but there is little the ISO can do about it given state jurisdiction of retail pricing. Chao also noted the need to let demand resources set prices during shortages.

In response to questions from FERC Chairman Joseph Kelliher, market monitors concurred that pay-as-bid pricing would not lower energy prices as some critics have suggested. PJM Market Monitor Joseph Bowring noted that, at best, pay-as-bid pricing would produce the same results as a uniform clearing price, but would more likely produce higher prices.

Operators of low-cost units would be irrational to bid at their marginal cost under pay-as-bid, he explained, and would instead try to guess and bid at the clearing price.

Pay-as-bid pricing would also make market monitoring impossible, Bowring cautioned.

van Welie told FERC that it's unlikely that transmission cost socialization, used for reliability projects in New England, will be extended to economic or other projects, such as those needed to access renewables. At best, van Welie noted there might be multi-lateral agreements among parties

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AEP Wants Demand Resources Approved by State Regulators Before RTO Participation

AEP cautioned FERC that allowing customers receiving cost-of-service retail rates to directly participate in RTO demand response programs creates unintended consequences by allowing customers paying an average retail price to "resell" their electricity at higher market prices by curtailing load (AD08-8).

Thus AEP urged FERC to require retail customers seeking to participate in RTO demand response programs to first comply with all applicable state requirements, including state commission approval to participate in such programs where needed. In places where ate sponsored demand response programs exist, regulated retail customers should not be able to participate in RTO load response programs, except when granted special approval by state regulators, AEP added.

AEP explained that regulated customers in RTO load management programs will buy electricity at cost-based rates so long as they are below market, but will choose to curtail usage and profit from market prices when prices rise. They are able to benefit from arbitrage between embedded average cost and market prices, and have no incentive, "to work with the utility within existing state tariffs to manage their load based on retail offerings from the utilities." Such arbitrage comes at the expense of other customers, AEP claimed.

AEP also noted that customers are allowed to bid their load reduction into RPM even where their utility has chosen the Fixed Resource Requirement (FRR) Option. Worse, rules do not allow the FRR entity to lower its reliability requirement to reflect the load response bid in by one of its customers, causing the entity to over-procure capacity.

Ultimately, such a market design could require an FRR entity to plan, build and pay for generation for a load response customer, only to have that customer resell that capacity into RPM as load response even though other customers paid for that capacity, AEP concluded.

AEP cited the problem as another example of the heterogeneous nature of PJM and noted that most demand response programs have been built around a restructured state model, ignoring unintended consequences in vertically integrated states.

Mirant Argues Why Higher NSTAR Imbalance Tolerance Needed

A higher imbalance tolerance for Mirant's Kendall plant is justified, Mirant told the Massachusetts DPU in a brief, because the variability of Mirant's dispatch has increased "markedly."

Hess had argued that Mirant has not justified the need for the 5% extra tolerance, noting that the mismatch between the timing of Mirant's gas nominations and ISO dispatch is longstanding (Matters, 6/30/08, 08-GC-1). But Mirant told the DPU that the 345 kV Stoughton to Boston line which was recently energized by NSTAR has made the Kendall plant a much more marginal resource with less predictable dispatch. A substation upgrade also prompted ISO New England to terminate a Reliability Must-Run agreement with Mirant, further impacting predictable dispatch.

Mirant also argued that the extra imbalance is justified because the Kendall plant is now more reliant on natural gas. New turbines which expanded its capacity can technically run on oil, but Kendall faces run limitations due to air quality restrictions.

Mirant also insisted that the Kendall plant is the only Cambridge plant that warrants the higher imbalances. While the Massachusetts Institute of Technology's generation may operate differently than expected from the day-ahead period due to weather or usage changes, MIT's load fluctuations can be readily predicted through forecasting and do not require an imbalance tolerance to the same degree, Mirant claimed.

Meanwhile, the Attorney General cautioned that the revised agreement's provision which directs Mirant to use standard cashout provisions that are settled monthly, rather than daily as proposed in the original agreement, could cause additional costs to be passed through to NSTAR firm customers. The AG pointed to a scenario where Mirant consumes more gas than nominated and such over-consumption is not offset by decreased usage by other shippers. In such a case, NSTAR may have to obtain additional supplies to serve its firm customers. Under the daily cashout provision, NSTAR would be compensated at the at the daily gas price. But under the monthly cashout provision, the AG reasoned that NSTAR customers will bear market risk from granting Mirant an added intolerance.

Briefly:

PPL EnergyPlus Latest Supplier to Offer Load Management Products

PPL EnergyPlus launched a suite of demand response and load management products for C&Is, and selected Comverge's Enerwise Group to administer the programs.

PUCT Staff Suggests Changes to ERCOT Postcard

The PUCT Staff submitted for Commission consideration two proposals to revise language on the ERCOT postcard which ERCOT sends customers regarding a switch request (26793). The new language is designed to address complaints regarding the current language and incorporate feedback from REPs and consumer representatives. Staff also noted there appears to be general consensus that a message on the outside of the mailer would be helpful to alert customers it is not junk mail, but ERCOT Staff has indicated that it may be difficult to add such a message. Subject to Commissioners' input at the July 3 open meeting, such a message may read: "Important information about changes to your electric service provider."

MPS, CMP File to Build Maine Power Connection

Maine Public Service and Central Maine Power officially announced plans to build the Maine Power Connection, which would provide isolated MPS customers with access to competitive power markets and support the development of proposed wind generation projects in Aroostook County (Matters, 6/16/08). The 345 kV connection would link central Maine to northern Aroostook County at a cost of $400 million to $500 million. The line is to qualify for cost socialization at the ISO, assuming Maine doesn't decide to leave the power pool. The utilities filed for a CPCN at the Maine PUC yesterday.

ERCOT Implementing Two New CREs

ERCOT will implement the addition of two Closely Related Elements on Operating Day July 3, 2008:

1. West - North Transfer Stability Limit consisting of the sum of flows on the following six lines:
   Long Creek Switching Station - Graham SES (345 kV, double circuit)
   Tonkawa Switch - Graham SES (345 kV)
   Bowman Switch - Graham SES (345 kV)
   Bowman Switch - Jacksboro Switching (345 kV)
   San Angelo Creek - Comanche Switch (345 kV)
2. Houston Voltage Stability Limit consisting of the sum of flows on the following four lines from North - Houston:
   Jewett to TH Wharton (345 kV)
   Jewett to Tomball (345 kV)
   Gibbons Creek to O'brien (345 kV)
   Roans Prairie to Kuykendahl (345 kV)

Blu Power POLR Drop Begins

ERCOT began Blu Power's voluntary mass transition yesterday (Matters, 7/1/08). The size of the associated load is about 59.37 MWhs/day, comprised of 2,087 residential customers and five small non-residential customers.

Residential customers by transmission area are:

Oncor	1,642
CenterPoint	414
AEP Central	14
Texas New Mexico Power	10
AEP North	7
Sharyland Utilities	0

Michigan PSC Investigating Smart Meters

The Michigan PSC began an investigation of minimum functionality standards for advanced meters and invited stakeholder comment on a series of questions and issues (U-15620). Utility smart meter pilots are to begin this year. The Commission asked stakeholders to comment on standardization, minimum functionality (such as remote shut-off and turn on capability, accommodation of net metering, prepaid service options, two-way connectivity with intelligent appliances), cost considerations, and open-source technology. Comments are due August 1, and a staff report is due October 1.

PUCT Dismisses Always Electric's REP Application

The PUCT dismissed the REP application of

Always Electric for failing to respond to an order directing Always to either request a hearing or withdraw its application, and for not filing financial information in a timely manner (Matters, 6/12/08).

Michigan Regulators Create Planning Consortium

The Michigan PSC created the Michigan Planning Consortium to consider, evaluate, and integrate transmission, generation (utility-owned, alternative, renewable, distributed, and redispatched), distribution upgrades and construction, energy efficiency, and demand side alternatives (U-15590). The Consortium will be led by the PSC and will serve as a forum to collect needed information and to work toward consensus recommendations among participants for energy infrastructure development in Michigan. The Commission directed its Operations and Wholesale Markets Division Staff to work with stakeholders, including RTOs, transmission owners, generators, distribution companies, independent power producers, alternative energy suppliers, and consumer groups, to determine how the Consortium can complement rather than duplicate an existing patchwork of planning processes.

SEMCO GCR Factor Approved

The Michigan PSC approved a settlement which implements the 2008-2009 gas cost recovery (GCR) factor for SEMCO Energy Gas of up to $10.5214/Mcf, effective the first billing month after July 1 (U-15452).

Dominion East Ohio Files Latest SSO Rate

Dominion East Ohio filed its latest SSO gas cost rate of $14.545/Mcf with PUCO, to be effective with bills rendered for billing cycles commencing on or after July 17.

AmerenUE to Stay in MISO

AmerenUE will stay a Midwest ISO member through 2012 under a pact reached among the utility, Missouri PSC staff, MISO and large customers. Remaining in MISO produces about $17 million in benefits over three years versus AmerenUE running its own transmission grid, the agreement finds. Stakeholders are still concerned about MISO costs, particularly allocation of transmission expansion costs.

ICT Confirms Sharp Rise in Level 5 TLRs at Entergy

The Southwest Power Pool, as Entergy's Independent Coordinator of Transmission, initiated 64 Transmission Loading Relief (TLR) Level 3, 4, and 5 events with a total curtailment of 178,110 MWhs from March 1, 2008 to May 31, 2008, SPP reported in a quarterly filing at FERC (ER05-1065). In comparison, SPP noted there were a total of 62 TLR Level 3, 4, and 5 events initiated with a total of 105,426 MWhs curtailed in the year-ago period. While the number of TLRs is comparable overall, when just considering Level 5 TLRs, there is a significant increase. The ICT initiated 18 Level 5 TLRs for the three month period in 2008 versus only six Level 5 TLRs in the 2007 period. The jump is due, in part, to the fact that Entergy stopped voluntarily redispatching on May 8, 2007, SPP said. Overall there was a 9% increase in the duration of TLRs, an 83% increase in the amount of Firm megawatt curtailments, and an increase in the total curtailments of 41%. Firm curtailments related to two flowgates accounted for 85% of the total TLR Level 5 curtailments in this quarter of 2008 and 43% of the total curtailments for all TLR levels in this quarter, SPP said.

EnerNOC Signs Burlington Electric Department

EnerNOC signed a contract with the Burlington Electric Department to deliver up to 10 MW of demand response capacity through 2012.

Wal-Mart Again Presses DPU on Efficiency Capacity Payments

Wal-Mart raised its concerns about being forced to give up Forward Capacity Market payments from energy efficiency projects to utility efficiency funds as a condition of receiving utility rebates, it told the Massachusetts DPU in comments on NSTAR's efficiency settlement (08-10). Wal-Mart has made the same argument in dockets for other utilities' efficiency programs (Matters, 6/19/08).

Fumo Wants Pa. Rate Caps Extended

Pennsylvania State Sen. Vince Fumo, D, who is currently under federal indictment and is not seeking re-election, called for making electricity rate caps permanent yesterday, except for small inflationary adjustments. Fumo wants default service bought via a portfolio that includes long-term contracts without a limit on term length and recommended a state power purchasing authority. Fumo would also ban winter disconnects.

CIEP Cutoff ... *from 1*

claimed.

The Rate Counsel urged the BPU to wait until various load management pilots were completed before concluding whether a lower CIEP is needed to reduce peak load.

The Rate Counsel also claimed that as the CIEP threshold is lowered, less of the new, smaller customers in the class are switching. Previously submitted data from PSE&G showed that while 63% of all CIEP eligible customers have gone to a third party supplier, only 34% of the CIEP customers added to the CIEP class due to the reduction of the CIEP threshold in June of 2005 have moved to a third party supplier, the Rate Counsel reported.

ConEdison Solutions and RESA noted that the inability of suppliers to readily identify and make new CIEP customers aware of the products and services available to them may be limiting the amount of switching that has occurred to date.

RESA added that marketers are still awaiting a written order to simplify the process by which a third party supplier may demonstrate a customer's consent to obtain the customer's account number from an electric or gas utility. RESA suggested establishing a voluntary program by which interested customers may elect to make contact and usage information available to suppliers on a secure website, similar to programs at PECO and other neighboring utilities. RESA also noted that the Board could direct utilities to provide the relevant information directly to a fulfillment house (paid for by suppliers), which would conduct targeted mailings to specific customer classes, an approach used by National Grid. That approach would enable suppliers to reach out to customers, while protecting the confidentiality of customer-specific information.

RESA also asked the Board not to impose any restrictions on the ability of fixed price BGS customers to switch between fixed priced BGS and competitive service.

The Rate Counsel reiterated its strong desire for a Portfolio Manager to procure resources on longer-term contracts as a means to insure price stability, economic supply and reduced price.

Constellation asked the Board to make EDCs responsible for transmission and transmission-related obligations, rather than BGS wholesale suppliers. Requiring EDCs to take initial responsibility for such administratively set transmission rates, with the ability to pass them through to consumers, will reduce the administrative costs incurred by both the EDCs and BGS suppliers in applying for, litigating and administering "pass throughs" for increases and decreases to such transmission rates, Constellation noted. The BPU should ensure that customers will see those transmission rates in their EDC bills so customers will be able to fairly compare their EDCs' rates with retail suppliers' product offerings.

FERC Conference... *from 1*

electing to finance a particular upgrade.

Commissioner Marc Spitzer called the development a "shame" because he believes the line between reliability and economic transmission projects is elusive.

van Welie observed that economic projects typically become reliability upgrades after a long enough period of inaction.