Energy Choice Matters

July 3, 2008

FERC Sets Conference on Columbia MLI Changes

Finding that Columbia Gas Transmission's changes to its Master List of Interconnections (MLI) have not been shown to be just and reasonable, FERC ordered a technical conference on the matter, and accepted and suspended Columbia's tariff sheets until December 1, 2008 (RP08-401 et. al.).

The tariff changes may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful, FERC noted.

Marketers had filed a complaint against the MLI changes, arguing that the modifications would abrogate scores of firm contracts by forcing shippers to revise their primary delivery points and associated contract quantities.

Columbia responded by arguing MLIs do not endow shippers with primary delivery point rights and that the MLI changes have no effect on any primary firm physical delivery point rights.

The technical conference is to address both Columbia's NGA section 4 proposal and marketers' NGA section 5 complaint.

Among other things, the technical conference is to explore how Columbia's proposal will affect shippers' existing ability to schedule service on a primary firm basis, FERC directed.

If an MLI point that is removed from the Master List of Interconnections is currently included as a scheduling point in an existing shipper's service agreement, that shipper will presumably have to replace the MLI point listed in its service agreement with one or more of the new MLI points, FERC observed.

FERC told Columbia to be prepared to explain (1) what process Columbia would use to carry out the change in such a shipper's service agreement and (2) whether and how the change in the shipper's service agreement will affect the shipper's existing ability to schedule service on a primary firm basis at the physical points covered by the replaced MLI.

Calif. Large Users See Inconsistent PUC Policy on Dynamic Pricing, AB 1X Protections

Dynamic pricing as an effective tool to lower rates and environmental impacts is "destined to fail" if default residential rates remain flat until 2022 as proposed under a California PUC draft, the California Manufacturers & Technology Association argued (A. 06-03-005).

CMTA juxtaposed a proposed decision regarding dynamic pricing at Pacific Gas & Electric in proceeding A. 06-03-005, which calls for critical peak pricing as the default rate for customers above 20 kW by 2010 (Matters, 6/11/08) with the proposed decision in A. 07-01-047 which found that AB 1X price cap protections must last until DWR bonds are fully paid off in 2022 (Matters, 6/25/08).

"[T]he linkage between the two proceedings is too large to ignore," CMTA cautioned.

CMTA reiterated that the greatest value of dynamic pricing lies in reducing peak period usage, which means residential customers, whose usage comprises the bulk of peak period consumption, are ideal candidates for dynamic pricing. The PUC's draft decision regarding AB 1X protections, however, would prevent default dynamic pricing for residential customers.

"How can we hope to lower peak usage when residential customers, whose air conditioning load drives those peaks, continue to be served on a business as usual basis? How can we hope to see greater alignment of prices in the wholesale and retail markets when many residential customers, even those with advanced metering devices, are not exposed to those price signals," CMTA questioned.

Large customers alone (whose demand generally does not drive the peak) should not be obliged

... Continued Page 5

PUCO Staff Releases Draft Default Service Rules

PUCO Staff yesterday released proposed rules governing electric security plans (ESPs) and market rate offers (MROs), as well as revised rules on transmission riders, corporate separation and special rates, such as for economic development (08-0777-EL-ORD).

Staff have completely rewritten O.A.C. Chapter 4901:1-35 to reflect the new default service options permissible under Senate Bill 221. All utilities must file an ESP, a cost-of-service type arrangement, for 2009, and may elect to propose an MRO as well (Matters, 4/23/08).

Once an MRO is accepted by PUCO, the utility cannot later propose an ESP, under the draft rules.

Hearings would be held on all default service proposals, whether an ESP or MRO.

MRO applications are to be accompanied by plans for a competitive bidding process (CBP). Utilities are to use an independent third party to design an open, fair, and transparent bid solicitation, to administer the bidding process, and to oversee the entire competitive bidding plan. Utilities may propose a portfolio approach to the procurement of generation supply, including such aspects as staggered procurements and spot solicitations during peak periods under the bidding plan.

MRO rates, which will initially be blended with current standard service offer rates, are to be adjusted quarterly for fuel and purchased power cost changes to the standard service offer portion of rates.

ESPs that include automatic adjustments for certain costs such as fuel, purchased power or environmental costs are to calculate a proposed quarterly adjustment based on projected costs by filing an application four times per year. Utilities must clearly distinguish whether these costs are to be recovered from all distribution customers or only from customers taking service under the ESP. Utilities must also specify whether the ESP includes a nonbypassable surcharge for utility-owned generation construction or environmental expenditures.

ESPs are to also include a listing of all components of the ESP which would have the effect of preventing, limiting, inhibiting, or incentivizing customer shopping for retail electric generation service. Such components would include terms and conditions relating to shopping or to returning to the standard service offer, and any nonbypassable charges. Utilities must justify each such component. ESPs also must justify of any nonbypassable charges for standby, back-up, or supplemental power.

As part of Staff's proposed corporate separation rules, the utility, "shall ensure retail electric service consumers protection against unreasonable sales practices, market deficiencies, and market power." As written, it's unclear whether that responsibility only applies to the utility's own operations. Competitive suppliers should be concerned that the language could be construed to place the utility in the role of policing all unreasonable sales practices against its customers, inserting it into complaints regarding suppliers' marketing and solicitations.

Utilities would make customer lists, which include name, address, and telephone number, available on a nondiscriminatory basis to all nonaffiliated and affiliated certified retail electric providers, unless otherwise directed by the customer.

Economic development rates to retain customers from leaving Ohio would be limited to customers 250 kW and above who are not engaged in retail sales and will retain at least 25 employees. Customers must demonstrate that electricity is a "major factor" in their decision to relocate and must identify their potential new site and cost of electricity there.

However, a mercantile customer, or a group of mercantile customers, may apply to the commission for a reasonable arrangement with an electric utility irrespective of any of those conditions.

Staff asked stakeholders whether such special rates should only be available when a utility is providing service under an ESP (and not an MRO), and whether there should be a cap on the level of incentives for special arrangements.

Comments on the proposed rules are due July 22. PUCO expects to adopt final rules in late August.

FERC to Let Stakeholder Process Work on PJM Peak Availability Complaint

FERC will hold Pepco Energy Services' complaint against PJM regarding RPM rules governing the peak-hour-period availability charge for infrequently run generators in abeyance pending the ongoing PJM stakeholder process (EL08-58).

The Commission, in an order yesterday, took no position on the merits of the complaint which we exclusively broke in April (Matters, 5/14/08, 4/23/08). The complaint will be held in abeyance pending a report on the disposition of stakeholder talks, and PJM was directed to file a stakeholder report by the earlier of December 31, 2008, or 30 days from the date the stakeholder process concludes. FERC will issue a further order on the complaint based on that report.

For units running less than 50 hours during peak times, PJM uses a unit's Equivalent Demand Forced Outage Rate (EFORd) to determine availability penalties. For units running more than 50 hours at peak times, PJM uses a unit's peak-hour Equivalent Forced Outage Rate (EFORp).

Pepco Energy Services had contended that using EFORd is an inaccurate and biased measure for peak-hour-period availability charges, because a resource that is available during the approximately 500 peak hours can nonetheless be assessed a substantial penalty if it is unavailable during the approximately 8,260 hours that fall outside of the peak-hour periods in a delivery year.

Pepco Energy Services wants FERC to find that generation with fewer than 50 service hours during peak hours in a delivery year should not be subject to charges and credits assessed under the peak-hour-performance market rules for the 2007-2008 delivery year.

The Commission should require PJM to adopt the same EFORp metric for all generation for the 2008-2009 delivery year, Pepco Energy Services had urged.

PJM countered that EFORd is a well-established performance measure, and that use of EFORp for infrequently run generating units could result in an unreliable indication of a resource's true availability, since EFORp presents insufficient data to reliably measure performance over the peak period.

ICC Pushes for More Granular RTO Bid Data

The Illinois Attorney General's mistaken identification of Edison Mission Energy plants from masked and aggregated PJM data, which led to false allegations against the IPP by the AG (Matters, 7/1/08), show the need for more detailed publicly released bidding data, the Illinois Commerce Commission told FERC (IN08-3).

The publicly available bid report posted by PJM on a six-month lag mixes data from both the day-ahead market and real-time market in the same table without identifying the market in which the bid was submitted, the ICC reported.

In particular, the data in the public report shows the last bid submitted for a particular unit - whether in the day-ahead or real-time market - with the unit identifier masked.

Given the way the bid table is constructed and the way that unit identifiers are masked, Edison Mission's use of a high offer strategy from 2004 until April 2006, which it has admitted to, cannot be detected or confirmed from public data, the ICC pointed out.

In fact, from the public data, it is not possible to determine that any company engaged in the type of behavior - high offers submitted in the day-ahead market and normal offers submitted in the real-time market - that Edison Mission was found to have engaged in.

The ICC suggested that PJM post separate reports for the day-ahead and real-time markets, plus the actual unmasked interval bids, rather than hourly or daily aggregations.

"Such an outcome would result in increased confidence of stakeholders that RTO markets are operating as they should and without manipulation by market participants," the ICC told FERC.

At a minimum, FERC should allow state regulators to access PJM's bid data files so that they can conduct necessary analyses and develop, "the necessary confidence that wholesale markets are generating just and reasonable wholesale prices to support their functions in the area of retail regulation," the ICC added.

Dayton Power & Light Compromises on Generation Bill Changes

Dayton Power and Light is amenable to using language suggested by the Ohio Consumers' Counsel regarding the explanation of generation charges and the generation rider on customers' bills (08-651-EL-UNC).

Dayton had asked PUCO for approval of an updated bill to reflect the fact that rate stabilization charges, now shown as a generation rider, can no longer be listed as distribution charges, per the Supreme Court of Ohio (Matters, 6/3/08). OCC objected to Dayton's description of the generation rider as vague and likely to raise customer questions. OCC suggested the following:

GENERATION CHARGE: Charge associated with the production of electricity. Only customers who purchase generation service from DP&L pay this charge.

GENERATION RIDER: Charge associated with the production of electricity. All customers pay this charge, regardless of whether generation service is purchased from DP&L or another provider.

OCC also objected to Dayton stating in its description of the generation charge that the charge reflects a "5 percent reduction required by the Ohio Legislature." That description is no longer accurate for bills rendered after 2005, OCC noted.

If PUCO agrees with the OCC's language, Dayton would make the changes after exhausting its current printed billing supply which has the original language. The supply should be used up in three to four months.

Briefly:

Dominion Finds Buyer for Two LDCs

Dominion is selling LDCs Dominion Peoples and Dominion Hope to Babcock & Brown Infrastructure Fund North America for $910 million. The price is $60 million less than what Dominion would have gotten had an offer from Equitable Resources to buy the LDCs not been blocked by the Federal Trade Commission over concerns the Equitable deal would create a gas monopoly in the Pittsburgh area. Dominion Peoples serves about 359,000 customers in Pennsylvania while Dominion Hope serves about 115,000 customers in West Virginia.

PUCT Staff Favors Higher LIDA Discount

Recent mass transitions, higher POLR prices and generally high wholesale pries warrant an increase in the low-income discount rate, PUCT Staff reported yesterday. Staff suggested the following new discount rates:

Discount Factors by Territory

AEP Central, Sharyland, Nueces

Current: 0.0316
Proposed: 0.058

AEP North

Current: 0.032
Proposed: 0.0398

CenterPoint

Current: 0.0322
Proposed: 0.0434

Oncor

Current: 0.0306
Proposed: 0.0438

TNMP

Current: 0.0306
Proposed: 0.051

Staff reported the new discount rates could be implemented within the Commission's current appropriation. Staff recommended that REPs implement the changes within 30 days of a final order, but urged them to implement them more quickly if possible. The proposal will be considered by the Commission today.

Another NCG Hearing Set

The Maryland PSC set a hearing on NCG Energy Solutions' compliance with broker licensing rules for July 8 (9142, Matters, 6/18/08). The Commission noted it wished to hear oral argument from the parties rather than have written briefs.

Maine PowerOptions Renews Pact with Constellation

Energy-purchasing consortium Maine PowerOptions, which aggregates local governments and non-profits, renewed its service agreement with Constellation NewEnergy. The deal gives customers access to green power and demand response programs in addition to commodity supply. Since Maine PowerOptions first contracted with CNE, over 340 members have purchased power from CNE, and CNE now provides over 100 MW to the pool's members.

D.C. PSC Approves Updated Smart Meter Pilot Rates

The Washington, D.C., PSC approved changes to the residential smart meter pilot rates charged by Pepco to reflect new SOS pricing, ensure revenue neutrality, and ensure that customers on the rates do not pay more than they would have under SOS (FC 1002). The pilot includes hourly pricing, critical peak pricing and critical rebate rates. The LMP price factor for the HP-AE rate of the PowerCentsDC Project Rider was also corrected to be 127.75% instead of 127.27%

Direct Offering $5,000 in Efficiency Upgrades

Direct Energy became the latest retailer to launch an online energy efficiency sweepstakes, as part of a promotion relating to a segment of the television show Designing Spaces featuring Direct Energy efficiency tips. Grand prize is $5,000 in efficiency improvements.

D.C. Passes Disconnect Restriction

The Washington, D.C., Council passed an emergency bill limiting electric disconnects which Pepco called the most restrictive disconnection policy in the country. Pepco will not be permitted to disconnect customers when the heat index is forecast to be 95 degrees or higher within 24 hours.

Calif. Pricing ... from 1

to face increased risk of electricity price volatility without the corresponding benefit of lower costs and increased system reliability created by all customers making rational decisions in response to market signals, CMTA asserted.

Until all customers may be legally shifted to new dynamic rate schedules, the Commission should focus on accelerating utilities' efforts to stimulate voluntary acceptance of new dynamic rate options at all customer levels, rather than moving C&Is onto default dynamic rates, CMTA urged.

The Energy Producers and Users Coalition and California Large Energy Consumers Association shared the view that residential customers should not be able to receive a flat rate once AB 1X protections expire.

CMTA added that real-time pricing is preferable to critical peak pricing, but noted real-time pricing cannot be available until the Market Redesign and Technology Upgrade is up and running. However, MRTU's delay does not mean the PUC should impose critical peak pricing on C&Is in the absence of the superior real-time pricing, CMTA argued.

TURN contended that default dynamic pricing goes against Commission supply procurement decisions which have required greater forward contracting and very limited (5-10%) reliance on the spot market. That disparity creates a disconnect between procurement and pricing that forces utilities to be concerned about recovering their revenue requirements under a default dynamic pricing regime, TURN noted.

"[O]ne must ask what signal is truly being sent when the prices reflected in the rate design are not directly linked to the costs that the utilities are actually incurring as a result of their procurement activities," TURN observed.

Long-term procurement would seem to argue for longer-term price signals, rather than spot market signals that may diverge significantly from the costs that the utilities actually incur, TURN added.

TURN also raised concerns that the PUC was putting pricing design ahead of customers' ability to change behavior, and urged that enabling technologies for load management be implemented on a widespread basis before default dynamic rates are implemented.

Pacific Gas and Electric shared the concern that forcing customers onto dynamic pricing would create confusion, misunderstanding, distrust, and financial burdens that would undermine customers' acceptance of dynamic pricing and load management technologies.

PG&E added that the proposed decision, "adopts requirements for the most dramatic changes in PG&E's rates since electric restructuring without taking evidence or providing a hearing to consider whether the previously approved rates are unreasonable, and what cost and service impacts the changes will have on customers, PG&E and other Commission initiatives."