Energy Choice Matters
July 4, 2008

Maryland PSC Orders Utilities to Evaluate Portfolio Procurement

Finding that it would be valuable to see what the long-term portfolio supply approach advocated by the Office of People's Counsel and AARP would look like in more concrete terms, the Maryland PSC ordered the state's four IOUs to provide an evaluation of a long-term procurement plan for SOS for residential and small (Type I) commercial customers, between 10-15 years in length (9117).

The Commission directed the utilities to evaluate a variety of different resource mixes, including new generation, generation upgrades, demand response programs, PSC-approved residential energy efficiency programs, potential or proposed C&I energy efficiency programs, implementation of a smart grid system and upgrades to the transmission and distribution system, among other options.

Utilities are to submit their evaluations by October 1 and recommend which portfolio mix best balances the competing mandates set forth in Senate Bill 400, that is, "a portfolio of electricity supply that provides electricity at the lowest cost with the least volatility." The Commission will hold further proceedings with a comment period after IOUs submit their plans.

One or more of the resource mixes evaluated by the IOUs should include a proposal for new utility-owned generation, including a description of the generation type, estimated installed capacity and fuel.

The procurement plans should incorporate some component of longer-term (more than five years), medium-term (one to five years) and shorter-term (one year or less, including the spot market, if applicable) purchases, the PSC directed.

Utilities were ordered evaluate the effect of the procurement plans on customer switching to and from competitive electric suppliers. IOUs should utilize different scenarios to determine expected

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PUCT Grants SWEPCO Turk Plant CCN

"I don't think in my lifetime I'm going to see competition in Northeast Texas," PUCT Chairman Barry Smitherman stated in joining Commissioner Paul Hudson in conditionally granting SWEPCO a CCN for its 600-MW coal-fired Turk Plant in Arkansas.

Noting that political leaders from Northeast Texas have twice asked policymakers to delay competition in the SWEPCO region during his tenure on the Commission, Smitherman dismissed the potential for the ratebased plant to frustrate the implementation of competition in the region, a key finding of an ALJ and Staff in opposing the CCN, as an issue in the case.

That left the Commission to consider whether wholesale supply contracts SWEPCO has with several cooperatives constitute native load and should be considered when planning for ratebased resources. Commissioner Julie Parsley, who voted against the CCN, agreed with the ALJ that the cooperative agreements were not native load, and that when excluding their load, SWEPCO did not need the capacity from the Turk plant.

But Smitherman viewed the long-term historic relationship between SWEPCO and the co-ops, along with language in relevant federal and Commission codes, as requiring the contracts to be viewed as native load. Under that view, reserve margins would fall to unacceptable levels by 2014 without the Turk plant, Smitherman noted.

Hudson added that he had trouble making a finding that the cooperative contracts were not native load in a contested case when the issue had never been clearly addressed by the Commission in prior rulemakings.

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Dayton Calls RPM Buyers' Transitional Auction Complaint a Hunt for More Subsidies

Dayton Power and Light views the latest complaint by RPM Buyers against the RPM transitional base residual auctions (Matters, 6/2/08) as, "one more effort on behalf of entities located primarily on the Eastern side of PJM to gain a reduction in delivered wholesale electricity costs at the expense of others," Dayton told FERC (EL08-67).

The complaint is merely an effort to seek "subsidies" from entities like Dayton on the Western side of PJM, Dayton charged, to shield complainants from the "natural consequences" of chronic underinvestment in generation and transmission infrastructure.

Western PJM customers are already required to pay billions in transmission costs for PJM East, Dayton noted, and the complaint, if granted, would shift more costs onto western customers.

Dayton noted most members of RPM Buyers hail from states where retail prices were capped at artificially low rates for six to 12 years. The results in those states are consistent with virtually every other experiment ever made with price controls - large increases when controls were lifted.

RPM Buyers want to ignore the "fundamental differences" that had caused capacity prices in eastern and mid-Atlantic markets to be higher than in the rest of PJM, Dayton claimed.

Capacity prices equalized across all PJM in the most recent auction, Dayton explained, because the auction assumed certain transmission upgrades would make more of PJM West's cheap capacity available to congested zones in the east once the delivery year rolls around. That doesn't mean prices should have converged in earlier auctions, as RPM Buyers suggest, Dayton noted, because the delivery years for those auctions pre-date any expected grid upgrades. Thus locational differences in pricing were appropriate in the transitional auctions.

Simply put, resetting results of past auctions would "devastate" capacity markets now and for the future, Dayton cautioned.

"RPM Buyers are fabricating history," Dayton accused.

Dayton pointed out that, given the long lead times to build new power plants, the transitional auctions were not expected to immediately create large quantities of new generation, and that, contrary to complainants, the results of the auctions did fall within the range of expectations, since no prices exceeded the negotiated cap of 1.5 times Cost of New Entry.

Constellation Suggests SCED to Solve TLR Problems in Unorganized Markets

FERC should require the use of security-constrained economic dispatch systems and similar tools used in the organized markets to remedy the "inherent discriminatory application" of the curtailment provisions of NERC Reliability rule IRO-006-4 (Reliability Coordination - Transmission Loading Relief), Constellation Energy Commodities Group urged (RM08-7).

Specifically, Constellation pointed to an increase of Level 5 TLRs on Entergy's system which "directly discriminates against interchange load and in favor of non-firm and native load," Constellation alleged.

NERC Reliability Standard IRO-006-4 relies upon the Interchange Distribution Calculator (IDC) to identify those transactions that need to be curtailed.

Thus, flaws inherent in the IDC result in flaws in the related Level 5 TLR curtailment processes in IRO-006-4, Constellation explained.

Constellation argued that the IDC as implemented under the NERC Reliability Standard IRO-006-4:

1. Does not require the use of real-time data to calculate internal schedule curtailments, allowing for the use of static, dated, and inaccurate information in modeling native load uses; and

2. Does not curtail non-firm intra-Balancing Authority schedules in contradiction to the terms of the Commission's pro forma Open Access Transmission Tariff in the Eastern Interconnection (§§ 13.6 and 14.7).

Constellation observed that Level 5 TLRs are not a problem in organized markets because rather than merely relying on application of Level 5 TLRs to manage congestion, organized markets use additional security-constrained economic dispatch systems, Financial Transmission Rights (FTRs) and other similar mechanisms.

FERC should order NERC to require the use of such and similar additional tools in non-organized markets such as Entergy in order to increase transparency and system reliability, as well as to alleviate the inherent discriminatory nature of the IDC calculation methodology, Constellation argued.

NERC as well should require Reliability Coordinators to take into account not only Native Network Load service when calculating curtailments, but also all intra-Balancing Authority area transactions, Constellation added.

Michigan Demand Response Pilots Must Wait for Smart Meters

Regulatory uncertainty regarding functionality and cost recovery of advanced meters has stalled demand response pilots in Michigan, PSC Staff reported in an update on the demand response collaborative (U-15277).

While the Commission recently instituted an investigation to establish smart meter guidelines (Matters, 7/2/08), demand response pilot programs will continue to be delayed until such rules are put in place.

Noting that air conditioning load is driving electric peaks, Staff reported that it is, "now generally recognized that the growth in central air conditioning installations is due in part to the discounting effect of the annual-average pricing method used to set utility retail rates."

Annual-average pricing stimulates air conditioning market saturation because it discounts the proper price signals associated with high cost combustion turbines needed to serve this peak demand, Staff added, while time-based pricing creates a nexus between customer consumption decisions and the cost of the generation mix required to serve such electric demand.

Demand response pilots conducted across the country have indicated that dynamic pricing has the potential to shift demand off-peak, induce energy efficiency, and reduce electric bills to the majority of customers, Staff observed.

Any demand response pilots which are developed should:

a) Assess if advanced metering technology providing a two-way wireless network between the utility and customers can enhance the effectiveness of time-based pricing programs and energy efficiency programs;

(b) Determine if dynamic pricing using Peak Time Rebates (PTR) is preferable to Critical Peak Pricing (CPP) rate structures that strictly rely on price differentials to induce customer response; and

(c) Address issues uniquely associated with low-income customers' participation in demand response programs and in particular those low-income customers not having air conditioning.

Briefly:

PUCT Staff Issues Customer Disclosure Strawman

The PUCT Staff released a strawman of new §25.475, General REP Requirements and Information Disclosures to Residential and Small Commercial Customers (35768), although certain pages appear missing from the copy posted on the Filings Interchange at press time. But from what is available, the strawman directs that all contracts shall be either for a fixed product or variable product. A "fixed product" would be a retail product, "for which the price for each billing period of the contract term is stated in the contract and includes TDSP charges and may vary from the disclosed amount solely to reflect actual changes in TDSP (as defined in 25.5 relating to Definitions) charges." The term of a fixed product shall be disclosed and shall not change throughout the term of the contract. A contract is defined to include the Terms of Service, Electricity Facts Label, Your Rights as a Customer and documentation of enrollment. Price would be defined as including all recurring charges.

ERCOT Postcard Gets New Language

The PUCT voted to revise language on the ERCOT postcard that notifies customers that a switch request has been placed for their meter (26793, Matters, 7/2/08). Chairman Barry Smitherman noted that the current language was antiquated and alarmist, by suggesting that customers may want to rethink their switch. Smitherman observed such an approach was appropriate when the market started and slamming complaints were more common, but slamming has subsided. The Commission approved use of a modified version of "Option 2" as proposed by Staff, adding language directing customers to call their REP, with the REP's phone number listed, for any questions. ERCOT should be able to implement the new postcards in 30 days, and reported that it will be able to print a notice on the outside of mailers telling customers the notice is important and not junk mail

PUB Complaints Against TriEagle, Starlight Dismissed

The PUCT approved the dismissal of complaints in docket 32405 from Public Utilities Brokers against TriEagle Energy and Starlight Electric since TriEagle has settled with all individual customers involved in the case (Matters, 6/4/08). The Commission agreed with an ALJ's finding that PUB did not present a claim for which redress was available in the docket, but dismissed the complaint without prejudice, as opposed to the ALJ's decision which would have dismissed the complaint with prejudice.

July 2009 Is Target for Interim 15-Minute Smart Meter Settlement in ERCOT

An interim solution that would allow all advanced meters to be settled on actual 15-minute data as they are deployed is targeted to be implemented by July of 2009, PUCT Staff reported yesterday. Protocol revisions to implement the solution authored by AEP have been making the stakeholder rounds (Matters, 6/23/08).

PUCT Commits to CREZ Decision By End of July

The PUCT, in discussion of the Competitive Renewable Energy Zone selection docket (33672), indicated that it wants to make a substantive decision on selections by or at the July 31 open meeting, so any cleanup to a final order can occur before Commissioner Paul Hudson leaves his post August 15.

N.Y. PSC Sets Natural Gas Efficiency, Demand Response Working Groups

The New York PSC is to convene two working groups on natural gas efficiency and demand response and distributed generation as part of its energy efficiency portfolio standard case (07-M-0548). The PSC also set a procedural conference for July 22 to discuss disposition of the remaining issues in the proceeding, such as on-bill financing and self-financing, geographic equity, and EEPS applicability to municipal systems, in addition to the topics of the two working groups above.

New LIDA Discounts Approved

The PUCT approved the Staff's new discount factors for the low-income discount program (LIDA). The new factors were listed in yesterday's issue (Matters, 7/3/08). REPs are to be given 30 days to implement the new factors but are asked to implement them sooner.

Surges and Circuits

Power Surges

SWEPCO: Huge win in obtaining Texas CCN for Turk Plant

Short Circuits

Lisa Madigan: Forced to walk back false allegations against Edison Mission despite touting "evidence" which backed her claims. But Madigan still got what she wanted, negative publicity for competition, even if the premise was incorrect.

Conn. Retailers: Although a draft, DPUC proposal on long-term REC contracting is another backslide akin to the permissibility of long-term contracts for Standard Service.

Md. Portfolios ... *from 1*

prices and volatility for each portfolio and resource mix, the Commission said. Utilities should also identify assumptions for, and evaluate the effect of, any new generation that might enter the market on a merchant basis during the study term.

The procurement plans are to evaluate the effect of any new transmission that is proposed to be added to the region, including various scenarios where either the Allegheny Energy TrAIL Line or the AEP-Allegheny Potomac-Appalachian Transmission Highline enter service, or both do.

Forecast annual costs for each portfolio mix are to be determined using a Monte-Carlo simulation or similar technique, and the distribution of cost outcomes around those expected costs. The analysis should incorporate forward market prices, pricing distributions that describe price volatilities, load characteristics and correlation factors (load to price, fuel types, etc.).

Utilities are to specifically address the extent to which each resource mix will help meet current objectives for EmPOWER Maryland, the RPS, the Regional Greenhouse Gas Initiative, and PJM's reliability requirements as they apply to Maryland.

The Commission stressed that its order should not be construed as a decision by the Commission to adopt the recommendations submitted, or as a decision to modify in any way, the current SOS procurement practice at this time.

SWEPCO CCN ... from 1

Although Hudson expressed reservations about the costs of the plant, he favored granting the CCN.

The Commission, in writing its final order, is to impose several conditions on SWEPCO to protect ratepayers.

First, Smitherman won support for limiting the amount of higher costs applicable to Texans that SWEPCO will incur from delays in obtaining necessary approvals from the Arkansas Department of Environmental Quality. Texas ratepayers should not be responsible for costs out of their control, Smitherman noted, and the final order is to reflect that SWEPCO cannot seek to charge Texas customers for costs stemming from ADEQ-related delays beyond this August.

Parsley cautioned that the Commission may have trouble enforcing such a provision once the Turk plant is put into SWEPCO's ratebase, since such costs are subject to the prudent and used and useful standards. SWEPCO may successfully argue that costs stemming from an ADEQ delay are not imprudent since SWEPCO cannot control ADEQ.

Smitherman responded by saying the Commission can try to enforce the cost limit. He would argue that SWEPCO must manage its relationship with ADEQ, and that unreasonable expenses stemming from a poor relationship could be considered imprudent.

The final order is to also reflect that Texas ratepayers are to be protected from risks in using new ultra-supercritical pulverized coal technology, by ordering that Texas customers cannot be charged for any retrofit costs if the technology does not work as intended.

Smitherman also warned co-ops not to resell their cheap SWEPCO power at a profit, and vowed that the Commission would prevent them from abusing "sweetheart" deals.

Parsley, however, noted that the Commission lacks jurisdiction over cooperatives and questioned how the Commission could prevent them from selling their power in any way they choose.

SWEPCO will own 440 MW of the Turk plant, at a cost of about $1.1 billion. About $500 million will be attributed to Texas ratepayers.