

Energy Choice Matters

August 18, 2008

Md. PSC Staff Supports Seasonal Price Shaping for SOS

The Maryland PSC Staff recommended that Baltimore Gas & Electric's seasonal price shaping mechanism for residential and small commercial customers be adopted, and suggested that other utilities explain why their non-seasonally differentiated prices are appropriate (Matters, 8/4/08).

Pepco and Delmarva, however, told the Commission they do not support seasonal price shaping beyond any seasonal differentiation actually bid by wholesale suppliers during the RFPs.

Staff noted BGE's plan would provide customers with more accurate price signals, which better reflect wholesale costs in retail rates. Customers would thus be better prepared to make more informed choices on energy use and efficient appliances, Staff said. Rates that don't reflect the seasonal costs of electric prices could encourage customers to use more power in the summer, contrary to EmPower Maryland, Staff added.

But the Office of People's Counsel opposed the price shaping mechanism, arguing that it would create "false" price signals that could, "cause [customers] to make decisions on retail supply offers that are not in the customers' best interest."

Since BGE's proposal will raise the billing rate for generation during the summer, the plan, "could create a situation where an annual fixed-rate offer from a supplier could falsely appear to provide a savings, because the offered rate is lower than the artificially increased SOS summer rate but higher than the true annual rate for SOS," OPC explained.

OPC contended that the current SOS procurement creates a "perfect match" between procurement costs and retail prices, and characterized BGE's price shaping proposal as artificial

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Scarcity Pricing Levels Prompt Some TOs to Urge Delay in MISO ASM

Concerned about high levels and instances of scarcity prices seen during testing, several stakeholders urged FERC to delay the start of the Midwest ISO's Ancillary Services Market, due to begin Sept. 9 (ER07-1372).

Market trials to date have not sufficiently demonstrated that the ASM is in fact ready to start on Sept. 9, and MISO is still making "significant" changes to market information systems as a result of issues raised during market trials, Xcel Energy Services told FERC, suggesting an Oct. 1 start date, or such time that the Midwest ISO has satisfied stakeholder concerns.

The incomplete readiness of the Midwest ISO's ASM systems is demonstrated by the common occurrence of scarcity pricing, and price reversal (where a lower value product is priced above a higher value product), during market trials to date, Xcel said.

Although both of those phenomena can occur as part of the MISO ASM market design, the regularity with which they have occurred during market trials indicates that there may be potential problems with the MISO co-optimization algorithms, Xcel observed.

MISO will be able to decrease the occurrence of scarcity pricing with more system corrections and additional market trials, Xcel reasoned, noting that the percent of time that scarcity pricing was observed during closed loop testing decreased from 45% of the dispatch intervals in June 2008 to 13% in July 2008.

Hoosier Energy Rural Electric Cooperative, Southern Illinois Power Cooperative and Indianapolis

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O'Malley Touts Long-Term Renewable Contracts, Government-Built Peakers

Maryland is to contract for long-term renewable energy and help local governments build quick-start peakers under initiatives announced by Gov. Martin O'Malley at the Maryland Association of Counties annual conference.

The state is to join Montgomery County, the University of Maryland and other local governments to buy up to 200 MW of wind power under contracts lasting as long as 15 years. One candidate for supply is Bluewater Wind's offshore wind farm being developed off of Delaware.

The state would also partner with county and municipal governments, using the bonding authority of Maryland Environmental Services, to develop smaller scale peaking plants to bring new supply online as soon as possible. Small scale, on-site generation and behind-the-meter generators will also be pursued. Legislation would be required for such expanded bonding authority, which O'Malley intends to seek next year.

O'Malley reiterated that the state cannot wait for market forces to bring new supply online and noted the state was prepared to order utilities to build supplies if needed, as the PSC recently opened an investigation on utility generation (Matters, 8/15/08).

O'Malley, however, said there is not any political stomach for raising \$10 billion in new revenues needed to place the state "squarely" in the business of power generation. The Governor also noted buying back existing deregulated power plants, which would cost \$20 billion, is not feasible.

However, options on the table include requiring all future generation to be owned by in-state utilities, developing new plants that are financed by utilities, or creating public-private partnerships with the state.

O'Malley also touted smart meters and time-of-day pricing as a means to reduce consumption.

N.Y. LSEs Argue Generators Can't Pursue Relief for 2002 Under-Procurement in ROS

New York transmission owners and competitive LSEs urged FERC to clarify that LSEs are not liable for any under-procurement of capacity by the New York ISO for the Rest of State region in 2002, alternatively asking for rehearing of any such determination made by FERC in a July order on a settlement among LSEs and KeySpan-Ravenswood regarding Ravenswood's complaint on in-City capacity under-procurement (EL05-17, Matters, 7/21/08).

A circuit court had found that NYISO violated its filed rate doctrine by using different methodologies to set unforced capacity (UCAP) as it relates to capacity obligations, which effectively reduced the amount of capacity LSEs were required to purchase and correspondingly reduced the amount of capacity sold by generators both statewide and in-City.

In accepting the Ravenswood settlement, FERC set the issue of LSEs' potential liability for Rest of State under-procurements for hearing, but the coalition of LSEs, which included Consolidated Edison Solutions and Constellation NewEnergy, argued that the July decision would, "increase both the number of potentially liable entities as well as the amount of refunds."

LSEs pointed out that Rest of State generators making "last minute" claims for refunds, such as NRG Energy and Dynegy, slept on their rights for six years, and cautioned that granting them relief would derail future settlements since parties in cases would be encouraged to hold out and pursue claims at the Commission after a settlement had been reached.

The Commission's original notice regarding Ravenswood's complaint limited its focus to the NYC ICAP prices for the Summer 2002 Capability Period, and there has been no notice by the Commission that settled ICAP transactions for 2002 other than in the NYC capacity region would be at issue in the proceeding, LSEs observed.

"Affected parties would be severely prejudiced by an expansion of this proceeding beyond NYC after 6 years of settled expectations, including financial transactions.

Indeed, it would be patently unreasonable to require such parties to deal with factual claims six years after the fact," LSEs contended.

FERC also has long-standing policy prohibiting intervenors from expanding the scope of a complaint initiated by others, LSEs noted, arguing that NRG and Dynegy, if even allowed to pursue their claims, would need to initiate new proceedings, subject to public notice and opportunity for all interested parties to intervene and comment.

Perry Fills Vacancies at PUCT

Texas Gov. Rick Perry appointed Kenneth Anderson, Jr., and Donna Nelson to fill the two vacancies on the PUCT.

Anderson is an attorney in private practice with background in corporate finance law and regulatory and administrative legal matters, and previously served as appointments secretary for Gov. Perry and chief deputy director of governmental appointments for former Gov. William Clements. Anderson replaces Commissioner Julie Parsley and will start Sept. 2 for a term lasting through Sept. 1, 2011.

Nelson most recently served as a special assistant and advisor on energy, telecommunications and cable budget and policy issues in the Governor's office, where she assisted the Governor's Competitiveness Council with the preparation of the Texas 2008 State Energy Plan, which supports continued retail competition in the electric industry. Nelson, a former assistant attorney general of Texas specializing in antitrust lawsuits, previously served as director of the PUCT's telecommunications section, and as legal advisor to the PUCT chairman. Nelson replaces former Commissioner Paul Hudson with a term beginning today and expiring Sept. 1, 2009.

ERCOT Delays New Nodal Schedule

ERCOT will not be introducing a new nodal schedule at the September Board meeting as earlier indicated, ERCOT CIO Ronald Hinsley reported to Transition Plan Task Force members in an email.

The delay was prompted because the CIM Importer is still in testing at the vendor site, and it will not be delivered to ERCOT by August 18,

Hinsley wrote. "Testing is going well, but, as is often the case with a complicated piece of software, it has gone slowly," Hinsley told TPTF members.

"We will be in a much better position to present at the October Board meeting a more reliable schedule which is fully vetted by TPTF," Hinsley added.

"Finally, we want to be sure there is enough time to adequately engage all Market Participant members of the TPTF," Hinsley said, noting, "we don't want to rush a product to you for review that ERCOT has not fully processed."

An Aug. 20 discussion regarding the new nodal schedule has also been cancelled.

CREZ Generators, Transmission Builders Should Obtain FERC Waiver Before CCN Application

Renewable generators located in Competitive Renewable Energy Zone 4 and the northern portion of Zone 2A who desire to interconnect with ERCOT, or the transmission service provider that would provide such interconnection, should first obtain a FERC statement disclaiming jurisdiction before the PUCT will approve a CCN application, the Texas Commission stated in its final written order on CREZ selection (33672, Matters, 7/18/08).

The disclaimers are needed because generators in those two areas will physically be in SPP but connected to ERCOT, raising the specter of interstate commerce, and potentially opening the door for FERC jurisdiction.

Although the Commission did not address curtailments and dispatch priority issues in the final order, the Commission did state that, as a matter of policy, there is an expectation that no nuclear facilities will be curtailed during periods of high wind generation. Given the unique characteristics of nuclear energy production, it is sound policy to prohibit the back-down of nuclear power plants during periods of light load and high wind levels, the final order states.

The Commission also expects that Staff, ERCOT, and market participants will address the effects of light load and high wind levels on other forms of generation, in particular, recognizing the future "critical" role that coal generators utilizing "clean" coal and carbon capture and sequestration technologies may

occupy in ERCOT. The issue is most appropriately resolved in a currently ongoing Commission project addressing dispatch prioritization in the CREZ zones, the order notes.

In a dissent, Commissioner Julie Parsley reiterated her preference for staged CREZ transmission building, arguing that the evidence is clear from the GE Study that, when combined with existing wind generation, all of Scenario 2's 18 GW cannot be reliably interconnected in a cost-effective manner.

The Commission anticipates that the selection of the entities responsible for constructing CREZ transmission improvements will be completed by the end of the year, and that those selected entities will submit CCN applications by the end of 2009. The Commission intends to address the applications by mid-2010.

PUCT Asks for Comments on CRR Auction to Set CREZ Dispatch Priority

The PUCT asked stakeholders for comments on the feasibility and efficiency of using auctioned congestion revenue rights (CRRs) to effectuate dispatch priority from the Competitive Renewable Energy Zones, and impede over-development of CREZ transmission lines.

As the standard approach for managing congestion risks in the nodal market, CRRs could be used to provide a priority to CREZ developers, without introducing distortions in the economic dispatch of the nodal market, the Commission noted.

If an auction approach were adopted, how should eligibility to participate in the auction be determined, and should any non-renewable generation facilities, such as clean coal or nuclear generation, have the opportunity to participate, the Commission asked (34577).

The Commission is concerned that, absent some limitation on the right to develop or a clear definition of dispatch priority, developers might develop the CREZs to a level that exceeds the CREZ transmission capacity that is to be built as a result of the Commission's CREZ order.

Such over-development would imperil developers' investment in wind generation, and the Commission noted that early developers could be accorded a priority in dispatch on the

basis of the higher level of risk incurred by so-called early movers (the developers that made expenditures for investigating the wind resource and signing leases for wind farms before the Commission committed to building additional transmission to west Texas).

The Commission also wants comments on the requirement that CREZ developers post collateral for the transmission system improvements that will be made to transmit energy from the CREZs to other parts of the state.

N.Y. TOs Claim NYISO ICAP Study Falls Short of FERC Order

The New York Transmission Owners urged FERC to direct the New York ISO to amend a report on the ICAP market so that it contains a comparison of Rest of State capacity offers that were not accepted in ICAP spot market auctions to estimates of the going-forward costs for the resources making those offers that exclude "unjustified" adjustments (ER03-647-011).

The TOs argued that NYISO's July report fails to meet prior Commission requirements because it compared estimates of going-forward costs for various types of generators in the Rest of State region to the market-clearing prices of ICAP in Rest of State that were calculated in its monthly spot market auctions, rather than to the offers made in those auctions that were not accepted. The NYISO also included various adjustments in its estimates of going-forward costs for the generators, which TOs contended do not represent costs that a generator could avoid if it were mothballed.

Without the adjustments, "one must conclude that virtually all ROS UCAP that was offered into spot market auctions for the 2006-07 capability year, but was not sold, was offered at prices exceeding net going-forward costs, with potentially significant impacts on price," TOs claimed.

The Independent Power Producers of New York, however, agreed with the conclusions in NYISO's filing, and maintained that the ICAP market is "fundamentally sound and workably competitive." Thus, there is no need or basis to impose a must bid rule or any other mitigation strategies, IPPNY said.

Briefly:**Columbia Gas Transmission Withdraws MLI Filing**

Columbia Gas Transmission has agreed to withdraw its tariff filing in Docket RP08-401 without prejudice, cease implementation of any Master List of Interconnections changes until after making a formal tariff filing with FERC and receiving authorization to make those MLI changes, and to allow shippers to review in advance a draft of any filing to make changes to the composition of Columbia's MLIs, and provide feedback and alternative suggestions to Columbia prior to Columbia's filing of the proposal (Matters, 7/8/08). In return, the Columbia Shippers have agreed to withdraw their Complaint in Docket RP08-403. 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).

AmeriPower CEO Files to Start New REP

Tejbir Singh, a significant owner and CEO of REP AmeriPower, has filed at the PUCT for a REP certificate for new start-up SAB Power. Singh also founded and leads Structured Solutions, an offshore service provider for backoffice functions, and previously worked at Reliant Energy. SAB Power would meet PUCT financial requirements using the \$100,000 in unused cash resources option. SAB Power has selected EC InfoSystems as its EDI provider and will participate in the October ERCOT test flight, and chose iSigma as its billing provider. Veronica Saenz, managing director at AmeriPower, would serve as Vice President at SAB Power.

Mass. DPU Closes Dynamic Pricing Docket

The Massachusetts DPU will not open an investigation into dynamic pricing at this time as it closed docket 06-101, originally instituted in 2006 as a petition from the Department of Energy Resources to investigate the potential benefits of dynamic pricing for all basic service customers. The DPU cited its mandate in the recent Green Communities Act to review and approve pilot programs that include time of use or hourly pricing for commodity service, which are to be filed by each electric distribution company

no later than April 1, 2009, for closing 06-101. The DPU will consider comments in 06-101 as part of the record in any future investigation.

MISO TOs Oppose Including Duquesne PJM RTEP Costs in Attachment O

Midwest ISO transmission owners urged FERC to reject Duquesne Light's application to recover any potential PJM Regional Transmission Expansion Planning costs through the Attachment O formula that applies to all Midwest ISO transmission customers (ER08-1309). Duquesne should be required to adopt some mechanism for recovery of RTEP costs from Duquesne zone customers only, MISO TOs suggested. FirstEnergy reported such costs total approximately \$109 million.

AReM Opposes Utility-Owned CHP

The Alliance for Retail Energy Markets urged the California PUC to reject the suggestion that utilities be allowed to own Combined Heat and Power units at customers' facilities, as proposed by San Diego Gas & Electric and Southern California Gas (R.08-06-024, Matters, 8/5/08). AReM called the proposal, "an example of the utility trying to put a program in place that could undercut direct access service," and noted customers would be unlikely to opt for direct access while on utility-owned CHP.

PG&E Wants Hearings on DWR Cost Allocation in Direct Access Case

Pacific Gas & Electric requested hearings on cost allocation of Department of Water Resources supply contracts as part of the California PUC's Phase II investigation into re-opening direct access (R. 07-05-025, Matters, 8/8/08). PG&E reported that a "significant factual dispute" existed as to whether PG&E's customers will pay more on a per unit cost basis under the DWR contracts, which can only be resolved in hearings. The Commission cannot, as part of the novation process, implement a cost allocation proposal that discriminates between utility customers by requiring some customers to pay higher per unit DWR contract costs, PG&E said.

BGE Price Shaping ... from 1

manipulation of retail rates.

OPC also claimed seasonal price shaping would increase already historically high rates during the summer above the actual procurement cost for that power. Price shaping may increase risk for wholesale suppliers and thus raise overall rates for customers in exchange for "speculative" benefits, OPC added. If the higher summer retail prices change customer usage, it could impact the profitability of a wholesale supplier's contract because the supplier would ultimately be responsible for serving fewer kilowatt hours during the summer than it had anticipated, OPC reasoned.

Staff recommended BGE provide greater detail on a true-up mechanism to reconcile the summer revenue overcollection which will occur due to seasonal price shaping, and that BGE pay carrying charges to customers on such overcollections.

Shell Energy and the Retail Energy Supply Association supported BGE's seasonal proposal, with RESA calling it a natural extension of BGE's Time-Of-Use shaping mechanism.

RESA also urged that BGE should adjust its official price-to-compare twice annually to enhance the benefits of seasonal price shaping. Currently, the price to compare is an annual load weighted average calculation that does not change over the course of the year, even though the underlying price for power procured by BGE changes, RESA noted.

MISO ASM ... from 1

Power & Light believe that the results of testing provide ample reason to be, "seriously concerned about whether implementation of the ASM will produce just and reasonable prices for Regulating Reserves in particular," citing scarcity prices as high as \$2,000/MW seen during testing.

"Midwest ISO has not explained why its market tests are producing prices for Regulating Reserve so greatly in excess of the current prices for that service in the Midwest ISO, and is therefore unable to provide assurances that prices considerably in excess of historic levels will not in fact be experienced regularly if the ASM is implemented on September 9," the co-ops and IP&L said.

Xcel also urged that the change to a seven reserve zone model from the four zone model used during testing should not occur without operational testing.

Additionally, the validation of the settlement process for the ancillary services charge types that are being added or revised per market implementation has not been resolved to Allete's satisfaction. Despite all of the testing activities, Allete told FERC that it has yet to see a settlement statement that demonstrates full utilization and accuracy of the charge types represented in the ASM business practice manuals.