

Energy Choice Matters

August 20, 2008

Customers Rank Saving Money Over Saving Environment, EcoAlign Says

Customers are much more concerned about saving money than taking actions that may benefit the environment, a new survey from EcoAlign, Distributed Energy Financial Group's green strategic marketing agency, confirmed.

Respondents in an online survey of 1,000 customers were asked what they would do if they had an extra \$200, and could choose from a list of energy saving or renewable offerings. However, 52% of Americans responded that they would put the extra \$200 in the bank, a decision ranking 43 points higher than the next most popular option, purchasing new energy efficient appliances at 9%.

Consumers' message to utilities and other energy providers is "show me the money" when it comes to energy efficiency, EcoAlign said, noting that consumers currently do not have great expectations with regard to the value of incentives provided by utilities.

Customers were "very clear" about how they like to receive energy efficiency incentives from the utility, with a credit on their energy bill being the top preference (50%), followed by a check in the mail (34%). Consumers want the benefit to be both visible in dollar terms and sustained over time, and eschewed reward-type programs or credits for future efficiency purchases.

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NMISA Claims Benefits from All-Maine Market Coordinated With New Brunswick

Initial studies indicate that Northern Maine will be significantly harmed if Maine Public Service (MPS) becomes a member of ISO New England, the Northern Maine Independent System Administrator (NMISA) told the Maine PUC, arguing that there are lower-cost alternatives available to achieve many of the benefits identified in the PUC's investigation of continued participation in ISO New England (2008-156).

The Northern Maine market is a bilateral market with balancing energy for schedule differences. "This design works well for a small market and has produced lower costs," NMISA said. "By employing a bilateral market, participants are free to utilize creative solutions for both long-term and short-term deals. The design promotes long-term deals because the suppliers and [competitive electric providers] apparently prefer fixed terms over short-term volatility," NMISA added.

While both the northern Maine and New Brunswick markets do not have the liquidity of ISO-NE, NMISA conceded, they do have greater price stability and lower prices. "Moreover, if all of Maine were included in the two markets, liquidity for the Maine/Maritimes area would significantly increase," NMISA suggested.

Balancing energy for the Northern Maine Market is purchased from the New Brunswick System Operator at the interface. Such balancing prices have been historically lower, NMISA said, pointing out that New Brunswick's marginal costs are not as natural-gas dependent as New England's.

If Maine decided to leave ISO-NE and create an all-Maine market, balancing energy could be supplied from three different regions: Maine, New England, and New Brunswick, NMISA noted. "Settlement would be calculated at the north and south borders and allocated to the [Competitive Electric Providers] based on schedule and actual load differences," the ISA observed.

"In effect, although Maine would have a bilateral market, LMPs would still exist," NMISA explained.

NMISA conceded that its day-ahead, self-scheduled dispatch, which does not include submission

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Rendell Names Hanger to DEP Post

Pennsylvania Gov. Ed Rendell tapped current PennFuture CEO John Hanger, who helped open the state's retail electric markets while a member of the PUC in the 1990s, to be secretary of the state's Department of Environmental Protection.

Although Hanger will still have to answer to Rendell, for retail suppliers the nomination comes as a major improvement over former DEP secretary Kathleen McGinty, who was seen as one of the driving forces within the Rendell administration for a "least-cost" utility-negotiated portfolio for default service, the use of long-term contracts backed by utilities to build generation, and for rate mitigation when price caps expire at the remaining utilities in 2010 and 2011.

Hanger faces a tough confirmation battle in the Senate where he has clashed with Republican leadership, although he can serve as acting DEP secretary until Rendell's term ends in 2011 without confirmation.

Republican Sen. Mary Jo White, now chair of the Environmental Resources and Energy Committee, called the nomination "polarizing," and her staff criticized Hanger for acting, "as a PR firm for the administration."

Rendell also selected current Vice Chair James Cawley as Chairman of the PUC. Cawley is one on the stronger supporters of competition of the Commission. Cawley will ask fellow PUC commissioners to support Commissioner Tyrone Christy, a frequent wholesale market critic, as the new vice-chairman of the Commission.

Hanger had been CEO of PennFuture for a decade. Jan Jarrett, current vice president at PennFuture, will replace him as the organization's chief executive.

Conn. Legislative Research Office Cites Default Service Procurement for High Prices

Connecticut DPUC standard service procurement policies, including a prohibition on long-term utility contracting, "may" have increased electric company rates, the state's Office of Legislative Research reported in a recent analysis.

OLR cited a laundry list of interacting factors responsible for the state's high electric rates: (1) the structure of the electric industry in New England, where the vast majority of power is supplied by non-utility generators; (2) federally-approved wholesale market rules; (3) a tight market caused by growth in demand outstripping supply; (4) the mix of fuels used to generate power in the region; and (5) environmental standards.

In addition, it appears Connecticut's high rates are partially due to congestion on the state's electric transmission system and restrictions on how the electric companies in the state procure power in the wholesale market, OLR said. OLR added that is not aware of any empirical analysis as to why Connecticut's rates are so high.

OLR cited DPUC mandates that require distribution companies to enter into full requirements contracts with wholesale suppliers as possibly raising rates, since suppliers bear the migration risks under such contracts. OLR noted that the DPUC banned utilities from entering into supply contracts outside the competitive RFP process.

"Connecticut's municipal utilities, which purchase power on the same wholesale market as the electric companies, have residential rates that are substantially below those of the [investor-owned] electric companies," OLR said.

"While part of the difference is due to different treatment under tax law and other structural factors, it appears that the municipal utilities' greater flexibility in procuring power also contributes to their lower rates," OLR concluded.

N.Y. Munis Say Lake Erie Transmission Scheduling Invalidates Prices for Long-Term TCCs

There can be "no question" that the effects of the reverse loop flows caused by potentially manipulative scheduling practices around Lake Erie (Matters, 7/31/08) are relevant to a FERC proceeding regarding the price of Fixed Price Transmission Congestion Contracts (TCCs) in the New York ISO, the New York Municipal Power Agency and the Municipal Electric Utilities Association of New York argued (ER07-

521, Matters, 6/9/08).

"By NYISO's own admission in the Exigent Circumstances Filing and at the July 23, 2008 Management Committee, the scheduling practices that are the subject of the Exigent Circumstances Filing magnify the congestion costs associated with the transmission outages," the munis claimed.

"NYISO used those unreasonably high congestion costs to establish unreasonably high prices for Fixed Price TCCs for municipal and cooperative customers for the next ten years," the munis added.

The munis pointed out that NYISO's filing shows that the improper Lake Erie flows first began to change in December 2007 -- the same time that congestion costs incurred by NYMPA/MEUA members increased by 500% above historic congestion levels observed over the last eight years.

The munis insisted that the NYISO's Fixed Price TCC proposal cannot be just and reasonable because it is based on congestion costs that are not historic, citing the abnormally high congestion costs caused by the improper reverse loop flows.

Briefly:

TXU Margins Just Below 5%, Execs Report

TXU Energy's year-to-date margins are just below the companies' target range of 5-10%, executives reported on a conference call to discuss earnings reported last week (Matters, 8/15/08). Executives expect that margins will be back into the low-end of their target range on a calendar year basis, and still view the 5-10% range as a realistic target for the long-term. However, getting margins at the high end, or above, the 5-10% range will require the expiration of some current fixed-priced contracts, TXU said.

Waco Signs with Liberty Through World Energy Auction

The City of Waco, Texas, used World Energy Solutions to award a 24-month deal for 116,800,000 kWh to Liberty Power. World Energy reported that the online auction used for the procurement recorded 63 bids, with the final contract struck on Waco's own paper, or terms and conditions.

Maine PUC Grants GE Unit Broker License

The Maine PUC granted an aggregator/broker license to GE Global Trade Management - Energy. GE intends to broker non-residential customers in all service areas, including the municipals. The GE unit is pursuing aggregator or broker licenses in Connecticut, Delaware, Massachusetts, New Jersey, New York and Rhode Island as well (Matters, 7/24/08).

Efficiency Survey ... from 1

Consumers demand direct incentives and want the value to be very visible, EcoAlign found. That means discounts on efficiency measures are viewed most favorably by consumers, with 34% responding they would most likely respond to discounts to save on energy costs over rebates, rewards programs and other measures.

In general, consumers favor direct incentives such as discounts, two-for-one offerings and coupons as a means to minimize household expenses, the survey determined.

When incentives are more indirect, Americans are less likely to use them. Promotional gifts and tips for saving money received the lowest scores of the possible incentives tested.

"Given the number of companies offering tips on how to be green or how to conserve energy, this finding indicates that many consumers do not value that information," EcoAlign observed. The scores would probably have been even lower for information that takes effort, including carbon and cost calculators, EcoAlign added.

The top features of efficiency programs that consumers favored are linked to consumers' desire to save money or cut costs as directly as possible, EcoAlign reported. Americans are most interested (at 74%) in having their utility provide coupons to purchase energy efficient light bulbs, followed by purchasing some or all of their power from renewable sources (68%), and mail-in rebates for purchasing energy efficient appliances (67%).

Americans are most interested in receiving information on energy efficiency from their utility's website, with 58% indicating that websites as a means of providing information would be extremely or very useful. Other top responses include: information mailed to customers (55% indicating extremely or very

useful); information relayed from customer service reps (51%); and information e-mailed to customers (50%).

According to the survey, consumers would be much more satisfied with their utility if more energy efficiency and/or pricing programs to save energy were offered, with some 90% of respondents reporting they would be more satisfied than today given such offerings. If done right, incentives tied to energy efficiency and green offerings could significantly boost customer satisfaction, EcoAlign suggested.

"Utilities today think of energy efficiency or demand response just as technical products instead of a bundle of technical, functional and emotional benefits," EcoAlign said. To be successful, energy providers must think of all aspects of the offering, including aesthetics, incentives, messaging, reliability, ease of use, savings, and channels used to communicate. "Right now the utility view of an offering seems to be fragmented and reactive rather than holistic and proactive," EcoAlign reported.

Operationally, the survey results have implications in regard to bill format, program design and information system requirements. For example, utilities and other suppliers will require an increased functionality and capability in customer information systems (CIS) to generate, deliver and track a broader array of incentives, EcoAlign noted, while websites will have to be overhauled. Finally, backoffice integration must provide efficiency information through multiple channels in a synchronized manner.

From a customer perspective, energy efficiency tools are often separate from the product offering, explained EcoAlign. For example, an energy provider may offer a carbon calculator, but a customer usually cannot sign up for a program offering based on results of the carbon calculator. Rather, the customer must be able to cross reference the tool's results with a program offering, forcing the customer to make an independent qualitative assessment of the value of the offering as compared to the tool's results.

"Compare that to buying through Amazon, or car purchases where you can read reviews, get customer feedback, get the price and savings, and then purchase, all at the same time," EcoAlign observed.

NMISA ... from 1

of price data, would be too simple for a statewide market, but suggested a design similar to that used in New Brunswick could produce benefits.

Dispatch in New Brunswick is similar to Northern Maine scheduling, but also balances the net ties to zero and re-optimizes the generation to the least-cost dispatch. The system savings are passed along to participants through lower Final Hourly Marginal Costs (FHMCs) and allocation of the Residual Month Cost.

Under the New Brunswick Market Rules, LSEs and generators submit Price Quantity Pairs (PQ Pairs) on a day-ahead basis, and the NBSO optimizes the information to provide the most economic dispatch. Thus, some units that were scheduled to serve load may not operate, but they are paid through their bilateral contracts for their schedules. Resources without bilateral contracts can submit PQ Pairs to the NBSO and be dispatched if economical. All resources serving New Brunswick load are paid on their schedules through the bilateral contract. If they produce more or less than scheduled they are settled by balancing energy.

If Maine were to establish its own state-wide dispatch, the substantial cost of building a new dispatch center could be avoided if dispatch for resources serving load in the Maine-Maritimes region was accomplished through the NBSO, NMISA said.

Currently, Central Maine Power and Bangor Hydro-Electric pay administrative costs of approximately \$9 million per year to ISO-NE, while NMISA load pays around \$700,000 for the ISA. The cost to build and operate an energy control center to operate the Maine electrical system on its own would likely exceed the \$9.7 million, but if Maine coordinated with the NBSO using CMP, BHE, and MPS system operators as satellites, some savings may be achieved, NMISA suggested.

NBSO also charges the Maritimes Balancing Authority, of which NMISA is a member, much lower rates for reliability coordination services than what ISO-NE charges CMP and BHE, NMISA said. Prior to the NBSO taking over reliability functions for the Maritimes, ISO-NE charged approximately \$1 million annually to perform the functions. NBSO charges \$202,000,

of which NMISA pays its load ratio share of approximately \$5,200 annually.

If all of Maine were to join the Maritimes Balancing Authority, the costs would be based on Maine's load ratio share (40%). While the NBSO's fee would increase from \$202,000, Maine's share would only be \$161,600 even if the NBSO charge doubled. Currently, ISO-NE, through its Schedule 3, Reliability Administrative Service, charges \$1.80 kW-year. For all of Maine, with a total 12 NCP of 1,883 MW, the cost would be approximately \$3.7 million, NMISA said.

Conversely, if northern Maine were to join ISO-NE, its cost for Reliability Coordination would increase to \$217,800, an increase of approximately \$212,600, NMISA calculated.