Energy Choice Matters

August 21, 2008

Buley, Harris Rap RG&E FPO as Contravening Policy Goals

The New York PSC adopted changes to Rochester Gas and Electric's Fixed Price Option (FPO) similar to recent changes in sister NYSEG's program, indicating that its order should signal a transition away from a utility-offered FPO that conflicts with policy goals for retail access and energy efficiency.

Commissioners Maureen Harris and Cheryl Buley both questioned the appropriateness of extending the FPO, which permits RG&E to earn a profit on commodity, given the Commission's policy of supporting competitive retail markets as well as energy efficiency. Buley characterized the FPO as in "direct conflict" with those two goals, and was "very troubled" that a distribution utility charged with meeting the state's 15x15 efficiency goals would be allowed to earn a profit on commodity sales, providing an incentive to sell more electricity rather than less.

While Staff noted the unique history of the NYSEG/RG&E territories in terms of stable, low-cost power, Buley asked why the Commission was not dealing with the policy conflict now, instead of in a subsequent review.

Given the luxury of the ability to earn a profit, which RG&E has managed well and has earned "handsomely" on, Buley insisted it is only reasonable that RG&E implement an ESCO Referral Program to make customers keenly aware of their options. Buley argued more ESCO-related information should be on RG&E's website, since customers are more likely to go there for information than the PSC's PowertoChoose, and also wanted more ESCO data included in the FPO mailings from RG&E.

Harris urged that RG&E be directed to include more historical information comparing the price of

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N.Y. Commissioners Voice Market Power Concerns in Iberdrola Review

Commissioners on the New York PSC voiced concerns about market power in the pending acquisition of Energy East by Iberdrola, and also questioned whether many of the benefits promised by Iberdrola as part of the merger would be enforceable (07-M-0906).

In what set the stage for a likely decisional meeting on Aug. 27, Staff explained their view, previously expressed in testimony, briefs and an RD (Matters, 6/17/08), that the merger should not be approved, or approved only with several major conditions, because it is not in the public interest as presented.

In commenting on Iberdrola's commitment to invest $2 billion into New York wind as part of the merger, a purported benefit, Commissioner Cheryl Buley stressed she did not want to give Iberdrola an unfair advantage in siting or interconnecting wind if Iberdrola is forced to meet a certain capacity target as part of a final order. Buley noted the RPS has been very successful in attracting wind resources to the state, and did not want to owe Iberdrola anything due to a final order in the case.

Commissioner Maureen Harris joined in concerns over the RPS, cautioning that a T&D utility with an affiliate owning wind assets could "distort" the success of the competitive RPS process, ultimately discouraging other wind developers and thereby raising the price for wind. Harris stated she did not know how the Commission could overcome that concern.

Harris also questioned whether certain benefits, such as a commitment not to reduce the utility workforce, could be enforced after the final order, and whether such commitment should be given weight in the Commission's decision making.

Industrials Charge ISO-NE is Form of Integrated Recourse Planning

The general principles of FERC Order 888 -- proper price signals, open access, and protection from market power -- have been replaced by, "a new version of integrated resource planning," in New England, Dr. Richard Silkman charged in recommending that Maine leave ISO New England, in testimony on behalf of the Industrial Energy Consumer Group (2008-156, Matters, 8/20/08).

Generators, however, countered with their own expert testimony showing that savings would not materialize from leaving the ISO due to energy and capacity exports to ISO-NE, arguing that Maine capacity and reserves costs could actually increase by removing the efficiencies attendant in a large power pool.

Silkman who, among other things, is a partner at broker Competitive Energy Services, asserted that ISO-NE's focus on reliability has been accompanied by, "an obsession with control over system planning, resource adequacy, capacity and the development and contracting for generation." Such centralized planning for Maine should not be performed by ISO-NE, Silkman argued.

But Dr. Roy Shanker, on behalf of the Consortium of Energy Generators and Suppliers, countered that if Maine left ISO-NE, commitment, operating reserves, dispatch, energy, and collectively all operating elements would be more expensive. The Consortium includes FPL Energy, Constellation Energy Commodities Group, Independent Energy Producers of Maine, EPSA, New England Power Generators Association, Dynegy, and Rumford Power.

Planning elements such as maintenance and adequacy/capacity requirements would also increase for the state upon leaving the ISO, as Shanker also pointed out that Maine would still be on the hook for current cost allocations related to new Pool Transmission Facilities. Maine would also lose the ability to socialize the costs of new transmission, such as lines needed to further integrate the Northern Maine market and better access wind power.

"Retail competition would be significantly impaired absent the ISO-NE administrative platform," Shanker added.

Shanker stressed that Maine could not "trap" capacity in Maine, and that rather than lowering costs, leaving ISO-NE would simply prompt capacity to be exported, meaning Maine would have to compete for its current in-state capacity against the ISO-NE price.

Silkman, however, claimed that such views of capacity don't recognize that if Maine left ISO-NE, capacity prices would be driven towards zero since 2,000 MW of load would no longer be counted in the Installed Capability Requirement, creating a "significant" surplus of capacity.

"All those Maine generators that sought greener pastures in ISO-NE will see the illusion of higher prices evaporate and will respond by seeking to bid to meet Maine's capacity requirements," Silkman said, conceding an equilibrium would develop that would see neither higher nor lower capacity prices if the capacity requirements for both Maine and the ISO were the same.

But Silkman pointed to the ability of Maine, once outside of ISO-NE, to set its own capacity requirements as producing savings. Maine's Installed Capability Requirement and associated forecasts could be adjusted to reflect policy goals such as conservation, enhanced load response programs and peak load reductions, and new transmission lines increasing imports from Canada. Reflecting such policies' effect on capacity needs and the ICR would allow Maine to save on capacity costs by leaving the ISO, Silkman contended.

However, EPSA and the New England Power Generators Association noted Maine's small size could increase the capacity and reserves required, since upon leaving ISO-NE Maine would no longer be relying on a larger pool of back-up generation.

EPSA and NEPGA also pointed out that a stand-alone Maine market would have to assume the costly NERC compliance functions currently being shared across ISO-NE.

Vectren SSO Adder Set at $2.35/Mcf

PUCO approved a retail adder of $2.35/Mcf for Vectren's new standard service offer to begin October 1, 2008, under the initial phase of

Vectren's exit from the merchant function (07-1285-GA-EXM, Matters, 5/1/08).

The adder was set in a descending clock auction conducted Aug. 19 by World Energy Solutions, with six bidders qualified to compete for six tranches. Only five suppliers, however, actually submitted offers, and ultimately four suppliers split the six tranches (with two winning two tranches each and the remaining two each winning a single tranche). Auction rules limited suppliers to two tranches.

The new standard service offer will be calculated as the sum of the NYMEX settlement price for the prompt month plus the retail adder.

Universal, Energy Savings Income Fund Carve Up SemCanada's Retail Books

As tipped during a recent earnings call (Matters, 8/13/08), Universal Energy has bought the residential and commercial customer books of Wholesale Energy Group in the British Columbia natural gas market and the Ontario natural gas and electricity markets for Cdn$2.5 million.

Wholesale Energy Group was the mass market competitive retailer of SemCanada Energy, whose parent filed for bankruptcy protection at the end of July.

Universal reported it gained about 22,000 residential customer equivalents on fixed term contracts through the deal. The average remaining life on the acquired contracts is 48 months.

Energy Savings Income Fund snapped up the larger C&I and institutional customer books of SemCanada by acquiring substantially all of the British Columbia commercial and residential natural gas contracts of CEG Energy Options, SemCanada's mostly non-residential marketer, for Cdn$1.8 Million.

Annual gas volumes from the CEG Energy Options customers are 4.8 million GJs annually, or 16.9 million GJs total over the remaining term of the contracts. The average remaining life of the contracts is 36 months, Energy Savings said.

PUCO Releases Draft Alternative Energy Rules

PUCO yesterday released draft rules to implement new alternative energy portfolio standards, energy efficiency mandates and related programs under SB 221, including the incorporation of RECs as a compliance option (08-888-EL-ORD).

Electric utilities and electric services companies are to supply 25% of their retail electric sales with electricity from alternative energy resources by the end of 2024. Up to half of that amount may be generated from "advanced" energy sources, which include, among other things, clean coal, nuclear enhancements, types of distributed generation and fuel cells, and demand-side management and energy efficiency above and beyond that used to comply with other regulatory standards or programs. The balance of the alternative requirements would have to be met through "renewable" generation, which includes more traditional RPS-type power such as wind, solar and other sources.

The renewable standard would be set at 0.25% of sales in 2009, incrementally rising to a minimum of 12.5% by 2024. A separate carve-out for solar would be included, starting at 0.004% in 2009 and incrementally rising to 0.50% by 2024.

At least half of the renewable energy resources, including solar energy resources, would have to be met through electricity generated by facilities located in Ohio. Any electricity from renewable energy resources, including solar energy resources, that originates from outside of the state would have to deliverable into Ohio.

LSEs could use RECs to satisfy all or part of a renewable energy resource benchmark, including the solar energy resource benchmark.

All costs incurred by an electric utility in complying with the requirements of the alternative energy standard would be avoidable by any consumer choosing a competitive supplier.

The required payment for noncompliance with any renewable energy resource benchmark, excluding solar, would be set by multiplying the MWh-level of noncompliance by an amount set by PUCO. The compliance fee would be set at $45/MWh for 2009, with the charge adjusted annually to reflect the annual change to the consumer price index.

The Commission could increase compliance payments if needed to ensure that LSEs are not using the payments in lieu of acquiring or producing energy or RECs from qualified renewable resources, including solar.

The payment for noncompliance with any solar energy resource benchmark would be calculated by multiplying the MWh level of noncompliance by a per-MWh fee which would start at $450 in 2009 and decline to $50 by 2024.

An LSE could petition PUCO for a determination that its reasonably expected cost of compliance with an advanced or renewable energy resource benchmark would exceed its reasonably expected generation rate by 3% or more, at which time PUCO could choose to waive or defer compliance.

An electric services company's baseline for compliance with the alternative energy resource requirements would be computed as an average from the three preceding calendar years of the total annual number of kilowatt-hours of electricity sold to retail electric consumers. For an electric services company with no retail electric sales in Ohio during the preceding three calendar years, its baseline would be zero.

Starting in 2010, each LSE would have to annually submit to PUCO Staff a plan for compliance with future annual advanced energy and renewable energy benchmarks, including solar, utilizing a 15-year planning horizon. The plan would include, among other things, the LSE's supply portfolio projection, including both generation fleet and power purchases.

The draft rules would also establish requirements for determining specific benchmarks for energy efficiency and peak reduction programs for utilities. Under the rules, a mercantile customer could enter into a special arrangement with an electric utility to commit the customer's demand reduction, demand response, or energy efficiency programs for integration with the electric utility's demand reduction, demand response, and energy efficiency programs.

Utilities would also be required to submit integrated resource plans which, among other things, would include a 10-year forecast identifying electricity resource options (including purchased power) expected to be needed to meet forecast system load levels.

Comments on the draft are due Sept. 9.

Nstar Files Latest Large C&I Basic Service Rates

Nstar filed its latest basic service rates for large customers subject to quarterly pricing with the DPU.

Quarterly Fixed Rates:
Large Commercial/Industrial Customers (NEMA)
Rates B3, B7, 62, 70
Oct. 1, 2008 to Dec. 30, 2008: 11.018¢/kWh

Large Commercial/Industrial Customers (SEMA)
Rates G6, G8, 24, 84
July 1, 2008 to Sept. 30, 2008: 11.793¢/kWh

Monthly Variable Rates:
Large Commercial/Industrial Customers (NEMA)
Rates B3, B7, 62, 70
October: 10.699¢/kWh
November: 10.626¢/kWh
December: 11.731¢/kWh

Large Commercial/Industrial Customers (SEMA)
Rates G6, G8, 24, 84
October: 11.490¢/kWh
November: 11.351¢/kWh
December: 12.541¢/kWh

ERCOT Sees Much Higher Switching in June

June switching activity in ERCOT was "significantly higher" than last year, although much of the activity was due to REPs switching customers to another DUNS within their umbrella, ERCOT reported yesterday. Completed switches were 65,822 in June 2008, compared with 59,274 switches in June 2007. Including the DUNS-related switches (about 40,000), June 2008 scheduled, in-review and completed switches were at 120,000. The numbers do not include some 32,000 customers who changed providers due to mass transitions during the month.

Residential ESI IDs not served by a former AREP grew to 43% by the end of June 2008, up from 39% year-over-year. Small non-residential ESI IDs not served by a former AREP increased to 46% from 41% a year ago, while large non-residential ESI IDs not served by a former AREP crept to 73% from 71%. On a load basis, 48%

of residential load is not served by a former AREP. Load share not served by a former AREP is 63% among small C&Is and 71% among large C&Is.

June market volume was up 11% year-over-year to 31,655 GWh, likely due to higher summer temperatures in June 2008, ERCOT said.

Ohio Marketers, Columbia Reach Deal on Linking Production Fields to Storage

Columbia Gas of Ohio and the Ohio Gas Marketers Group have struck an agreement relating to assignment of interstate pipeline capacity held by Columbia on Panhandle Eastern - Enhanced Firm Transportation (field zone to Maumee) for the use of Choice customers for the period June 1, 2008 through October 31, 2008 (so-called PH Summer Capacity).

The agreement clears the way for a Stipulation and associated tariffs relating to two gas cost recovery proceedings, and Choice program structure, to be implemented (05-221-GA-GCR). The Stipulation specifies allocation of upstream storage and related transmission capacity for use during this upcoming winter, and calls for upstream storage and capacity to follow the customer between GCR and Choice so as to remove the potential of stranded upstream capacity.

However, marketers had contended that in the tariffs to implement the Stipulation, Columbia had left out an important component of the Panhandle Eastern storage and storage-related capacity allocation, namely the Enhanced Firm Transportation capacity which is used to transport gas from the field zone to Maumee for delivery into storage.

Essentially, marketers said, Columbia's proposed tariffs provided only the portion of the related Panhandle Enhanced Firm Transportation capacity to bring gas into storage, but did not assign the portion of capacity needed to give marketers access to the production field zone required to fill storage.

Under the new pact submitted to PUCO to resolve marketers' concerns, Columbia offered to assign to all Choice suppliers PH Summer Capacity based upon the core customer load being served by the Choice supplier using the allocation formula for Panhandle Eastern capacity agreed to for the post November 1, 2008 period. The offer was made to all Choice suppliers with core customer loads which would entitle them to Panhandle Eastern capacity under the Stipulation, with the PH Summer Capacity offered at maximum tariff rates.

The revenue from the PH Summer releases are not to be counted against each Choice supplier requirement to accept assignment of the Columbia Transmission Cost contract costs of a minimum of 83%.

N.Y. PSC Sets Utility Incentives for Efficiency

The New York PSC yesterday set aside up to $27 million for utility incentives for energy efficiency programs, provided Commission targets are met. The goal of the incentive program is to reduce consumption by up to 693,951 MWh annually, representing a portion of the Commission's share of the statewide goal to reduce electricity consumption by 15% by 2015. The maximum incentive per utility is:

Utility	Potential MWh Reduction	Maximum Potential Incentive
Central Hudson	40,478	$1.57 million
Con Edison	255,316	$9.92 million
NYSEG	97,769	$3.80 million
National Grid	223,270	$8.67 million
Orange & Rockland	29,939	$1.16 million
RG&E	47,179	$1.83 million
Totals	693,951	$26.96 million

Commissioner Cheryl Buley had hoped that a competitive environment where utilities, NYSERDA and ESCOs competed for incentives would have developed.

Briefly:

D.C. PSC Asks Working Group for Procurement Improvements

The District of Columbia PSC directed the SOS Working Group to submit proposed revisions to the Wholesale Full Requirements Service Agreement and RFP for the 2008-09 SOS solicitation by August 29, inviting comments on any revisions by September 9 (FC 1017).

Sempra Unit Won CL&P LRS Load
Sempra Energy Trading won 100% of Connecticut Light and Power's last resort service load for the final quarter of the year, awarded during the Aug. 5 RFP (Matters, 8/7/08).

N.Y. PSC OKs Ravenswood Sale
The New York PSC approved the sale of the KeySpan-Ravenswood generating station from National Grid to TransCanada. The sale, accomplished through an auction, was required as part of the Grid-KeySpan merger.

NuCoastal Gets Investment to Complete Repowerings
NuCoastal Power Holdings, which is developing 1,500 MW in South Texas, has received backing from an ArcLight Capital Partners affiliate to complete the repowering of five mothballed plants. Four of the plants are to be gas-fired; the other will run on petroleum coke. NuCoastal will be renamed ReNu Power as part of the investment. ReNu CEO Roy Hart is "extremely bullish" on the market dynamics of the ERCOT South zone.

N.Y. TOs Latest to Ask for Lake Erie Loop Flow Investigation
The New York Transmission Owners and Long Island Power Authority have joined a growing chorus of stakeholders urging FERC to institute an investigation into Lake Erie loop flows which prompted the New York ISO to implement immediate tariff changes to prevent scheduling transactions over circuitous paths around Lake Erie (ER08-1281, Matters, 7/31/08).

Calif. Draft Would Fund SCE AMI at $1.6 Billion
The California PUC in a draft decision would adopt a settlement proposed by Southern California Edison and the Division of Ratepayer Advocates (DRA) that would permit $1.63 billion in ratepayer funding for SCE's Advanced Metering Infrastructure (AMI) project from 2008 through 2012 (A. 07-07-026). The draft finds that there are between $9 million and $304 million in net benefits from the Settlement Agreement. SCE and the Alliance for Retail Energy Markets last year had agreed that there were no special metering or data access issues related to direct access that required litigation in the case.

Calif. Proposal Would Adopt Draft Efficiency Plan
A proposed decision from the California PUC would adopt the California Long-Term Energy Efficiency Strategic Plan (Matters, 7/15/08) that gives scant mention to energy service providers, mainly contemplating ESPs' role in integrated demand-side management packages, such as air conditioner rebates with duct sealing, weather-stripping, programmable thermostats, and advanced meters (R. 08-07-011). The proposed decision also reports that the PUC intends to open a new smart grid rulemaking by the end of 2008.

RG&E FPO ... *from 1*

the FPO versus RG&E's monthly variable price in the customer mailings. Staff admitted that there was not a lot of visibility in the mailing regarding price comparisons between the two options. Over the last five years, FPO customers have paid about 20% more than the variable price, Commission data showed.

Chairman Garry Brown called yesterday's order an incremental step, with the Commission prepared to make another step towards bringing RG&E in line with other utilities in March 2009, when another evaluation is to occur.

Brown also stated the Commission would review its ESCO policies next month.

A final order was not available at press time, but the modifications mostly mirror recent changes at NYSEG. RG&E will be permitted to earn up to $6 million on the FPO.