Energy Choice Matters

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Reliant Opens Comprehensive Review of Business Model to Lower Collateral Needs

All options are on the table as Reliant Energy conducts a comprehensive review of its retail business, though Reliant said it was committed to extracting the customer franchise value from its retail unit when pressed by analysts who proposed a sale of the credit- and value-draining business.

In a conference call regarding its lower outlook, Reliant said that hurricane-related losses were not the only issues dragging down results, prompting a full review of retail strategy, people and processes. Products, pricing, hedging, forecasting, and supply are all to be reviewed (Matters, 9/29/08).

Reliant said it will reposition its business to focus on low-capital, high return activities. That augurs for a smaller role for large C&I sales, which Reliant said consume 70% of collateral requirements but contribute only 30% to margins. Executives stopped short of saying Reliant would leave the large C&I

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FERC Accepts Duquesne Portable Capacity Plan

FERC accepted the major tenets of a capacity Portability Agreement that will allow Duquesne zone LSEs to use their RPM-procured capacity in the Midwest ISO upon Duquesne Light's integration, and also approved related capacity payment service agreements between PJM and LSEs (ER08-1339, ER08-1345, Matters, 8/25/08).

FERC found that the Portability Agreement provides a means for the Duquesne zone LSEs to satisfy their Midwest ISO capacity requirements, but ordered the agreement to expressly state that the Portability Agreement satisfies the reliability obligations of Midwest ISO Module E through May 31, 2011, to answer LSEs' concerns.

The Commission noted that the Portability Agreement is silent on must-offer requirements in each RTO. Agreeing with LSEs, FERC found that, "it is not reasonable, or likely possible, for the same capacity to comply, simultaneously, with two must-offer requirements," and ordered PJM to submit clarifying language on the issue.

FERC denied Duquesne Light's request that it be permitted to transfer any capacity that may not be required under the Midwest ISO's resource adequacy rules to third parties. Duquesne has not demonstrated why a tradable right, which is not available to any other load in PJM that pays RPM

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Conn. Suppliers Can't Negotiate Prices of Banked Net Metering Credits

The DPUC has made suppliers subject to the same net metering pricing rules which United Illuminating must follow for banked kWhs, departing from earlier drafts (05-06-04RE04).

A draft originally gave suppliers greater latitude when reimbursing customers for banked kWhs created by new net metering rules, payable either at the end of a 12-month banking period, or when a customer switches suppliers (Matters, 9/25/08).

Under the draft, the supplier was responsible to reimburse the customer for banked kWhs based on a price agreed to between the customer and the supplier under either scenario.

However, the DPUC's final decision says suppliers reimbursing customers for such banked kWhs must do so, "based on the same pricing arrangement that UI is required to administer."

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Nelson Says Not to Meddle with ERCOT Market

Policymakers shouldn't fix what isn't broken, PUCT Commissioner Donna Nelson told stakeholders during a keynote address at the Gulf Coast Power Association conference in Austin.

Nelson expects a great deal of discussion among legislators next session regarding retail competition, but insisted lawmakers must resist the urge to set prices or otherwise re-regulate the ERCOT market.

Nelson highlighted current PUCT rulemakings on REP certification and mass market customer disclosures as addressing recent problems faced by the market. In particular, Nelson said REPs need to more clearly disclose rate changes.

Ubiquitous rollout of smart meters, and accelerating achievement of 15-minute settlement of advanced meter data at ERCOT, are also high on Nelson's priority list.

Former PUCT Chairman Paul Hudson threw his weight behind a standard Terms and Condition for residential service, in order to allow true apples to apples comparisons. While REPs are offering some 90-odd products in the marketplace, Hudson noted there are really only two to three "flavors" of products, and that REPs have a "long way to go" on innovation. Hudson suggested an energy innovation portfolio standard, similar to an RPS concept, to promote more innovative offerings.

Speaking on the biggest risks facing the market today, Steve Madden, Senior VP for Supply & Pricing at StarTex Power, cited investor fear, and possible disconnect between wholesale and retail prices through any potential legislative action next year.

FERC Extends NYISO ICAP Price Floor to All Sellers

FERC granted rehearing on several aspects of its March Order instituting revised mitigation policies in the ICAP market, and ordered that the ICAP offer floor be extended to all sellers, not just net buyers (EL07-39, Matters, 3/10/08).

In order to deter uneconomic entry, FERC's March Order accepted NYISO's proposal for an offer floor equal to 75% of net Cost of New Entry (CONE) for net buyers of capacity.

However, NYISO and generators cautioned in rehearing requests that defining net buyers would be difficult, and buyers could create shell corporations to avoid a net buyer designation and thereby still depress prices through uneconomic, subsidized entry.

FERC agreed on rehearing, and ordered that the market power mitigation rules for uneconomic entry apply to all sellers.

"We find that all uneconomic entry has the effect of depressing prices below the competitive level and that this is the key element that mitigation of uneconomic entry should address," the Commission said.

"Parties requesting rehearing have convinced us that defining net buyers raises significant complications and provides undesirable incentives for parties to evade mitigation measures," FERC added.

FERC also accepted arguments from generators that the offer floor should also apply to Special Case Resources, such as demand response, which were originally exempted by FERC's March Order. KeySpan-Ravenswood had cautioned that exempting Special Case Resources could allow LSEs with market power to use uneconomic demand response to suppress market clearing prices.

The Commission recognized that the New York PSC may conclude that the procurement of new capacity, even at times when the market-clearing price indicates entry of new capacity is not needed, will further specific legitimate policy goals, such as renewable portfolio standards. While FERC agreed that it may be appropriate to exempt such new resources from the price floor proposed by NYISO, the PSC has not provided sufficient specificity to justify an appropriately narrow exemption at this time. The PSC may make a filing under section 206 of the Federal Power Act to justify a mitigation exemption for entry of new capacity that is required by a state-mandated requirement that furthers a specific legitimate state objective, FERC said.

FERC also rejected the NYISO's definition of "control" as used in a compliance filing. For purposes of determining a pivotal supplier, NYISO had proposed to broaden the definition of control to include the retention of revenue or other financial benefits from UCAP, but FERC found such a definition to go beyond the directive of its March Order. Under Order No. 697, FERC's guiding principle is that, "an entity controls the facilities when it controls the decision-making over sales of electric energy including discretion as to how and when power generated by the facilities will be sold." IPPs had cautioned that the NYISO's broader definition would have prevented pivotal suppliers from entering bilateral contracts, because such contracts would have been deemed to be controlled by the capacity suppliers.

FERC denied rehearing on the PSC's request to reinstate the revenue cap for pivotal suppliers, finding NYISO mitigation measures have adequately answered the PSC's concerns.

The Commission also declined to establish any sort of timeline for the development of a forward capacity market, noting any efforts should occur through the stakeholder process.

OPC Urges Return to Education Spending in ERCOT

Texas legislators should use money in the System Benefit Fund to re-institute customer education regarding electric choice, energy efficiency and similar programs, Texas Public Utility Counsel Don Ballard said at yesterday's Gulf Coast Power Association conference.

Only educated customers can benefit from the marketplace, Ballard said, who especially saw a need to get out in front of impending advanced meter surcharges to convince customers of the benefits of the technology. Ballard would also like to see ERCOT interact with end users more, particularly during mass transitions.

Ballard called 15-minute ERCOT settlement essential to advanced metering deployment, questioning the value of smart meters without such settlement. Ballard thinks smart meters may prompt customers to buy more variable, or month-to-month contracts, since with the technology they will be able to instantly switch in response to changing price conditions. Currently, customers face a lag in executing their switch, which makes responding to fluctuating contract prices more difficult.

David Dollihite, VP of Product and Business Development for Direct Energy, reported market research shows that new products possible through advanced metering must cut energy bills by 25%-50% for customers to embrace the offerings. While that's a high target, Dollihite thinks that value is achievable given DOE statistics on wasted energy in the home that can be eliminated with better, real-time usage information.

Steve Wilburn, VP of Smart Energy Fulfillment for Reliant Energy, said it would be a "little scary" to offer residential customers a real-time pricing product as smart meters are first rolled out.

Wind Generators Oppose VRT Revisions in ERCOT

A "real risk to regional stability" faces ERCOT if it does not require Voltage Ride Through (VRT) capability for all new generating units, Victor Barry, Director of Compliance for the Texas Regional Entity, said in an email to stakeholders regarding Operating Guide Revision Request (OGRR) 208.

"Risking West Texas to a voltage collapse would bring unwelcomed attention and potentially significant fines for almost every registered entity in West Texas, not just the wind farms," Barry said.

Wind generators, however, have protested the proposed "retroactive" imposition of Voltage Ride Through capability on wind farms going online after 2003.

The proposal for mandatory retrofits has moved forward despite a lack of any engineering study or analysis that shows current VRT capabilities pose a reliability risk, E.ON Climate & Renewables Chief Development Officer Patrick Woodson said in a letter to TAC.

Forcing generators to implement after-the-fact upgrades, which could cost tens of millions of dollars at E.ON, without a proven need for such action is unreasonable, introduces a new business risk, and sets a bad precedent for investment in Texas, Woodson added.

Discount Power Counters Allegations from PP&U Over Confidential Info

Start-up Connecticut retailer Discount Power vigorously contested allegations from local competitor Public Power & Utility (PP&U) in a response in Discount's license application proceeding at the DPUC (08-09-14, Matters, 9/24/08).

PP&U had alleged that Discount Power, through one of its principals, Michael Parrella, is using confidential data from PP&U, obtained when Parrella's firm Pardev, LLC consulted for PP&U earlier this year.

But Discount Power countered that PP&U's allegations were false, and stem from acrimony related to Pardev's role in raising capital for PP&U.

According to Discount Power, PP&U retained the services of Pardev to assist it in raising capital to finance its ongoing business needs. The terms of the agreement also called for Pardev to receive a consulting fee and to have the exclusive right to raise capital for PP&U for a specified period of time, Discount Power claimed.

Discount Power alleged that PP&U breached covenants under the consulting agreement when, among other things, PP&U principal David Pearsall arranged for a small amount of capital for PP&U in violation of the exclusive rights period in the agreement.

In regard to PP&U's allegations that Discount Power has copied PP&U's enrollment application (terms of service), Discount Power argued that the application was not covered by the two firms' confidentiality agreement, since the document is in the public domain and posted on PP&U's website. Discount Power noted that while PP&U uses the same application for all customers, Discount Power has unique applications for residential customers and C&Is.

Discount Power was most disturbed by the specter of legal action raised by PP&U in its protest at the DPUC. PP&U had informed the DPUC that if it granted a license to Discount Power, PP&U would be forced to institute legal action, unless Discount Power has received a full release from PP&U.

"In other words, if Discount Power pays us money we will not contest its DPUC application," Discount Power alleged in summarizing PP&U's statement.

"This filing by PP&U is nothing more than an obvious and blatant attempt to coerce Discount Power into paying it money," Discount Power continued.

Discount Power argued that the DPUC is charged with encouraging and allowing for a sufficient number of electric suppliers into the marketplace.

"[I]t is rather obvious that PP&U has engaged in a campaign to avoid its obligations and shed a false light on the application of Discount Power and is acting in direct contravention of not only the spirit of deregulation but the deregulation laws themselves," Discount Power alleged.

Discount Power further cited Conn. Gen. Stat. §16-245u(a) which empowers the DPUC to, "monitor the marketplace for electric generation services and electric distribution services to end use customers and take action to prevent unfair or deceptive trade practices, anticompetitive or discriminatory conduct and the unlawful exercise of market power."

"One could certainly make the argument that the actions of PP&U in filing it [sic] letter of September 23, 2008 are anticompetitive and an unlawful exercise of market power," Discount Power alleged.

FERC Approves Intra-Hour External Scheduling for ISO-NE

Dismissing objections from power marketers, FERC accepted an external scheduling proposal from ISO New England that allows ISO-NE to schedule external transactions more frequently than once per hour and permits transactions to flow for less than an hour (ER08-1277, Matters, 8/25/08).

Only ISO-NE receives the added flexibility; Market participants are not granted similar intra-hour scheduling rights.

FERC agreed with the ISO that more frequent scheduling of external transactions will lead to export and import flow that better reflects changes in system conditions in real-time, such as changes in real-time prices, and will reduce Net Commitment Period Compensation (NCPC) charges incurred when external transactions scheduled to flow at the top of the hour are no longer economic in real-time.

Power marketers had argued that ISO-NE's one-sided proposal could damage the market, and result in ISO-NE basing intra-hour scheduling on "stale" information. That, in turn, could discourage market participants from entering into transactions that bring about true price convergence, marketers had said.

But marketers, "failed to offer a persuasive explanation of how the External Scheduling Proposal could raise LMPs or suppress bid quantities and thereby damage the market," FERC determined.

The External Scheduling Proposal can lead to increased efficiencies by removing uneconomic transactions and adding economic transactions, the Commission said.

FERC Denies APS OATT Waiver

FERC denied a request from Arizona Public Service for a waiver of certain OATT provisions regarding the designation of network resources, requested in order to allow certain retail customers of a network customer to benefit from an allocation of "preference power" from the Western Area Power Administration (ER08-1264).

The OATT requires that in order to designate a resource as a network resource, the network customer must own or have committed to purchase power from that resource.

APS reported that one of its existing network customers has certain retail customers that have received an allocation of "preference power" from WAPA. In order for these retail customers to receive their allocated preference power, that power must be transmitted from WAPA's transmission system over the transmission system of APS.

According to APS, under WAPA's legal requirements for preference power, only the recipient of the preference power allocation, in this case the retail customer, may take title to the power. Because the network customer cannot take title to the power, APS states that the network customer cannot fulfill the requirements under APS' OATT for designating the preference power as a network resource, and therefore, cannot fulfill the requirements for taking network transmission service for delivery of that power. Thus, APS requested a waiver.

In rejecting APS' request, FERC noted Order 890 affirmed the long-standing requirement that a resource must be owned, purchased or leased by the network customer in order to qualify for designation as a network resource. "Among other things, this ensures that the network customer is able to fulfill its obligation to redispatch its network resources as requested by the transmission provider,' FERC said.

"APS has failed to demonstrate that its proposed tariff revision is consistent with the obligations of network customers under the pro forma OATT. APS also fails to explain why alternative arrangements, such as the use of point-to-point transmission service by the network customer, are insufficient to allow the retail customer in question to access its preference power," the Commission ruled.

Briefly:

Georgia PSC Meeting on Catalyst Natural Gas Credit Position

The Georgia PSC has called a special administrative session today after natural gas marketer Catalyst Natural Gas lost its line of credit from Constellation Energy. The PSC is to consider whether Catalyst still meets requirements for marketers to have adequate credit or other financial guarantees, and may consider transitioning customers if such credit is lacking. A Catalyst affiliate also holds a REP certificate in Texas. The marketer has focused on marketing to multi-family dwellings, immigrant and ethnic communities, and other under-served customers.

JCP&L Proposes Solar Finance Program

Jersey Central Power & Light filed a proposal with the BPU to enter into long-term agreements to purchase and sell Solar Renewable Energy Certificates (SRECs) as a means to provide a stable basis for financing solar generation projects. Under its proposal, JCP&L would solicit SRECs to satisfy approximately 60% of the incremental SREC purchases needed to meet the RPS through the end of 2010. SRECs would equal 50% of the incremental purchases to meet the RPS in 2011, and 40% in 2012. In total, JCP&L expects the plan to support the phase-in of approximately 30 MW of solar projects through May 31, 2012. SREC purchase agreements would last 10-15 years and be obtained via a competitive RFP. SRECs purchased through the contracts will then be sold to energy suppliers through an auction process and revenues from the sales will be used to offset program costs.

Constellation Unit Installs Solar Unit at Md. Agency

Maryland Environmental Service entered into a 15-year PPA with Constellation Energy's Projects & Services Group under which Constellation will build a 300 kW solar power system at the agency's headquarters. Under the agreement, Constellation will construct the $2 million facility, own the energy assets, and sell the on-site generation to Maryland Environmental Service under a 15-year PPA. Constellation will retain solar RECs from the project.

Reliant ... *from 1*

business, but noted its new low-collateral strategy has implications for the size of the large C&I unit and the types of business it conducts.

Executives did not attribute the downturn to competitive intensity in the market, and, at this time, believe gross margins of $25-26/MW are achievable long-term in ER COT. Competition has ebbed and flowed with volatility and now weather-related challenges, executives noted, which has made market participants more conservative in acquiring and pricing customers.

Reliant attributed a $200 million negative adjustment to its outlook to Hurricane Ike, with half of the impact from loss of load, and the other half from bad debt and foregone pricing actions. Another $100 million downward revision is from cooler weather in August, which reduced margin and prompted greater amounts of power sellbacks.

Analysts were frustrated over what some viewed as a desperate move to raise capital via a loan from GS Loan Partners, especially when compared to the relatively inexpensive $0.40/MW delivery cost associated with Reliant's Merrill Lynch sleeve which is being unwound. Reliant defended its decision by citing the wave of failures in the financial markets, and stating that it did not want to risk its business on assuming it would always have access to the Merrill Lynch sleeve.

Analysts also questioned the value of the credit-intensive retail business, arguing that it drained capital and has proven to decrease shareholder value.

While capital requirements make buying Houston-zone intermediate generation unlikely in the near-term, Reliant said such a strategy would be consistent with its long-term desire to lower capital requirements.

Portable Capacity ... *from 1*

charges, is necessary to mitigate capacity payments.

The Commission accepted a clarification from PJM regarding operations in emergency conditions. The original agreement had suggested LSEs would be responsible for energy deliveries during emergencies, but PJM clarified that during emergencies, PJM will deliver energy to the Midwest ISO, as required, as an RTO to RTO transaction.

FERC rejected FirstEnergy's argument that Duquesne should be required to hold Duquesne zone LSEs harmless with respect to any new costs that may be imposed on LSEs under the Portability Agreement, citing the voluntary nature of RTOs.

The PJM/Duquesne Capacity Payments Agreement is to be revised, FERC ordered, to reflect PSEG's proposal that Duquesne will retain the other Duquesne zone LSEs' capacity obligations until PJM can properly verify the transfer of any underlying load obligation to a new LSE and establish that LSE's capacity obligation. "This clarification is appropriate in order to eliminate the possibility of any unassigned capacity obligations for the Duquesne zone," FERC said.

The obligation of a new Duquesne zone LSE to sign a Capacity Payments Agreement must be appropriately memorialized by the Midwest ISO, FERC agreed. While FERC stopped short of including such a provision in the MISO tariff (as some LSEs had requested), MISO is to post the appropriate notice on its website.

DPUC ... *from 1*

Under the payment system for UI, a final payment for banked kWhs is based on ISO New England, Connecticut Zone, All Hours, Average Real Time Locational Marginal Price (Avg. RT LMP CT Zone). For distributed generation other than solar PV, banked kWhs are paid using the annual 24-hour average (Avg. RT LMP CT Zone) price times any net kWh remaining. For solar PV, banked credits are to be paid based on the annual average (Avg. RT LMP CT Zone) price for the hours of 10 a.m. to 4 p.m. times any net kWhs remaining. For credits paid due to a customer's change in suppliers, the average prices are to reflect the months over which the credits were accrued, rather than annual averages. When Time-of-Day net metering is implemented, the payment for annual banked kWhs will be based on an average of the (Avg. RT LMP CT Zone) during UI's TOD billing periods.

Otherwise, the final order is not materially different on retail access issues compared with the DPUC's most recent draft. The Department declined to implement summer seasonal generation rates at UI, citing the impact summer rates would have on UI's current Standard Service procurement schedule.

UI must offer variable peak pricing (VPP) only to last resort service customers starting Jan. 1, 2009, instead of all customers as originally drafted, due to backoffice limitations. UI is required to make VPP available on a voluntary basis for all customers effective July 1, 2010. The DPUC declined to impose UI's proposed one-year stay for customers electing VPP, since it is essentially a different form of generation rates and should be governed by current switching rules.

UI is also directed to file revised supplier terms and conditions to memorialize the elimination of minimum stay requirements for customers returning to Last Resort Service.