Energy Choice Matters

October 23, 2008

RESA Wants ConEd to Continue Sending MSC Estimates to Customers Quarterly

Consolidated Edison should continue to give commodity customers monthly forecasts of the Market Supply Charge (MSC) on a quarterly basis even as ConEd changes the MSC to reflect day-ahead market prices that were in effect during each customer's billing period, the Retail Energy Supply Association urged in comments to the New York PSC (07-E-0523).

A March PSC order directed ConEd to make the MSC reflect such day-ahead prices. In deriving the MSC, the current methodology provides monthly prices, which are forecast four times a year at the inception of each quarter.

Under ConEd's proposed plan, the estimate of prices would be eliminated, and instead customers would only be provided, on an after-the-fact basis, with the day-ahead market hourly pricing by zone.

While RESA concurs with ConEd's proposal to reflect day-ahead pricing in the actual MSC on bills sent to customers, suppliers argued that it would be "extremely useful and beneficial" to both customers and ESCOs for ConEd to maintain its current practice of providing monthly price forecasts four times a year at the inception of each quarter, in addition to providing the day-ahead price by zone on an after-the-fact basis.

The price estimates provide customers with an indication of the potential movement in prices on a going forward basis, RESA explained, and give customers the information to make better consumption decisions. In the longer term, publishing MSC estimates helps default service customers and shoppers by providing a benchmark against which they can evaluate other offers. "Consequently, it would be inadvisable to disadvantage customers by taking away that valuable

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Nelson Concerned About Impact of Proposed REP Financial Requirements

First Choice Wants to Police Use of Move-Ins

Proposed Staff rules regarding REP financial requirements and customer deposits are of "particular concern" to PUCT Commissioner Donna Nelson, who said in a memo in advance of today's open meeting that the rules must not drive current REPs out of business (35767, Matters, 10/9/08).

While Nelson favors strong customer protections, and agrees with the proposals in concept, Nelson recommended that the Commission solicit alternatives to the financial and deposit requirements, believing that the Commission can achieve the goal of customer protection without unnecessarily forcing existing REPs out of the market.

The proposed financial standards permit REPs to attain certification via two methods. So-called (f)(1)(A) REPs are those that either have an investment grade credit rating, or have tangible net worth greater than or equal to $100 million (along with associated criteria). So-called (f)(1)(B) REPs are those with liquid capital not less than $3 million (scaled down to $1 million for REPs with a sound history in the market).

REPs certified due to liquid capital not less than $3 million must keep customer deposits in an escrow account or provide an irrevocable stand-by letter of credit in an amount sufficient to cover all deposits.

Nelson asked whether, given the current instability in the financial markets and the substantial

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PJM Market Monitor Wants to Review Aspects of PJM Regulation Market Changes

While the PJM regulation market will be more competitive with the adoption of a comprise to institute use of the Three Pivotal Supplier test in the market, the consensus solution includes certain features that may result in non-competitive market outcomes, Monitoring Analytics, PJM's market monitor, told FERC (Matters, 10/2/08, ER09-13).

While Monitoring Analytics recommends FERC approval of the compromise, the market monitor intends to review the impact on market outcomes from certain features which may lead to problems, and may request that one or more of the provisions be removed or modified based on that review.

Monitoring Analytics cited three areas of concern:

(a) Increasing the adder to cost-based offers from $7.50 to $12.00;

(b) Revisions to the calculation of estimated unit-specific opportunity costs, and

(c) Elimination of the netting of regulation market revenues against balancing operating reserve payments.

While PJM had justified the relevant proposals as needed to ensure adequate cost recovery and avoid creating any disincentives for suppliers to continue offering regulation into the market, Monitoring Analytics sees no factual basis for such assertions.

The Maryland PSC joined in the market monitor's concerns, noting that the $12 adder is only 6 cents lower than the load-weighted, average offer price for all marginal units in the PJM regulation market during 2007.

The PSC also argued that the provision of regulation service is fundamentally locational in nature, because suppliers must be capable and qualified to provide regulation as needed within a particular Regulation Zone under the market rules. However, the proposed adder lacks any locational component to encourage participation in the regulation market by resources that can provide regulation service where it is needed, the PSC said.

"The pricing in both the energy and capacity markets in PJM recognizes the need to send a locational signal to market participants. No reason is stated in the Regulation Filing as to why a locational component is not included in connection with adders to cost-based offers in PJM's regulation market," the PSC said.

Mich. ALJ Denies Dismissal of Universal Complaint

A Michigan PSC ALJ refused to grant Universal Gas & Electric's motion for dismissal and summary disposition of the PSC Staff's complaint against Universal concerning the alternative gas supplier's marketing practices (U-15577, Matters, 9/15/08).

The allegations in Staff's complaint, at least if taken at face value as required in cases of summary judgment, state a viable claim against Universal, the ALJ found.

The ALJ also disagreed with Universal's assertions that the Staff's failure to include pre-filed testimony either by, or in support of, 20 customers who are part of the case justifies dismissing Staff's complaint. Staff's concern about the need for a protective order for such testimony was reasonable (which caused a delay), and adequate steps have been taken to ensure that Universal is not blindsided, the ALJ said.

While Universal had urged the complaint to be dismissed due to Staff reliance on hearsay, the ALJ ruled that Staff's testimony and exhibits appear, at least based on the totality of the sworn testimony submitted thus far, to fall within the public records exception and/or the business records exception to the hearsay rule.

Universal's request that Staff provide the utilities' current gas cost recovery (GCR) factors to customers calling the PSC with complaints is "well beyond" the scope of the case's current stage, the ALJ added. Such a request seeks injunctive relief, which, if the Commission can even issue such relief, is best addressed as part of any final decision.

Hearings to take testimony are scheduled for March 23.

Reliant Sees Nodal Protocol Change Making Load the Sole Insurer of the Day-Ahead Market

Reliant Energy again urged reconsideration of the approach to allocating Day-Ahead Market

(DAM) short-pays under Nodal Protocol Revision Request (NPRR) 147, which changes the way short-pays to the nodal Day-Ahead Market are handled.

NPRR 147 reallocates short payments using a procedure that draws from the Congestion Revenue Right (CRR) Auction revenue account first, and then draws any additional shortfalls from the CRR Balancing Account. The NPRR, sponsored by the Wholesale Market Subcommittee, would prevent the potential collapse of the Day-Ahead Market should a large default event occur with CRRs or the Day-Ahead Market, WMS said.

Reliant understands that the primary concern underlying NPRR 147 is the impact of a potential Point-to-Point (PTP) Obligation payment breach acting as a disincentive to Day-Ahead Market participation.

Under the current Nodal Protocols, a PTP Obligation payment breach results in a short-pay to any Day-Ahead Market Invoice Recipient owed money. That includes QSEs representing resources and/or load and CRR Account Holders, Reliant noted.

But NPRR 147 rejects such methodology by ultimately charging only QSEs representing loads the full cost of any Day-Ahead Market payment breach, including a PTP Obligation short-pay. The current PUCT-approved Nodal Protocols spread the payment breach cost among several types of Market Participants and do not include a mechanism by which loads are ultimately made responsible for Day-Ahead Market short-pays.

"Concerns regarding the potential impacts to future DAM participation due to a PTP Obligation payment breach do not justify absolving QSEs representing Resources and CRR Account Holders of responsibility for any DAM payment breach while making loads the sole insurers of the DAM," Reliant said.

Reliant suggested that, since PTP Obligation payment breaches are expected to be infrequent, PTP Obligation payment breaches should be treated as unique occurrences with a separate recovery methodology. The methodology should continue to allocate the payment breach cost to the broader group of Invoice Recipients currently reflected in the nodal protocols based on the total absolute value of their participation in sum of the Day-Ahead and Real-Time Markets. This approach would minimize the impact of the cost to any one Market Participant and is similar to allocations of similar costs in other regions, Reliant said.

In addition, Reliant wants NPRR 147 to: 1) clarify that the amount recovered by ERCOT through the re-auctioning of CRRs will also reduce the amount of any short-pay recovery; and 2) provide a methodology for allocating the total cost of the breach over the full term of the PTP Obligation to the month in which the breach occurred so that market participants are not exposed to continuing short-pays in future months and a disincentive for Day-Ahead Market participation.

ERCOT Changes Ancillary Service Methodology to Reflect Increased Wind

ERCOT's board accepted changes for determining Regulation Reserve (RGS) and Non-Spin Reserve Service (NSRS) to reflect the growing wind resources in Texas.

Two changes were made to the method for determining RGS. First, the increase in installed wind capacity on the ERCOT System and its affect on RGS will be taken into account when studying the historical data used to determine the upcoming requirements. The current installed wind capacity in the ERCOT region is 6,023 MW and expected to be more than 8,000 MW by the end of 2008 and around 8,500 MW in 2009.

ERCOT will also increase the amount of the RGS if ERCOT begins to observe lower than desired CPS1 scores (a measure of controlling frequency).

For NSRS, procurement will no longer be a flat 1,354 MW around peak load hours depending on temperature forecasts. Instead, the requirement for each hour during the Operating Day will take into consideration historical errors in the Mid-Term Load Forecast (MTLF) and the Wind Forecasts that are being provided to ERCOT.

The changes take effect Nov. 1.

Briefly:

Texas Regional Entity Forming Working Group to Address FERC Order on LSE Responsibility

The Texas Regional Entity is forming a working group to provide input regarding the registration of market participants as Load Serving Entities (LSEs) in the ERCOT region in response to FERC's order last week accepting NERC's plan to assign certain LSE responsibilities to Distribution Providers, rather than competitive suppliers. The first meeting is October 24 and comments may be submitted to NERCRegistration@texasre.org.

Suez, TXU Win Defense Supply Contracts

The Defense Logistics Agency awarded two Texas electricity contracts this week. Suez Energy Resources NA beat 11 other respondents to win a maximum $49,666,373 fixed price contract to provide electricity to JRB Navy Reserves, NS Ingleside, NAS Corpus Christi, and NAS Kingsville in Texas through Jan. 31, 2011. TXU Energy was awarded, over 11 competing proposals, a $6,573,281.37 fixed price contract to provide electricity to Air Force Space Command, Archer City, Texas, and Army Air Force Exchange Service, Dallas, through Jan. 31, 2011.

AEP Appeal of CSCs Denied

The ERCOT board denied AEP's appeal of the 2009 congestion zones, commercially significant constraints (CSC), and closely related elements (CRE), and accepted TAC's recommendation (Matters, 10/14/08). For 2009, there are four congestion zones along with five CSCs between the zones.

DPUC Approves CL&P LRS Procurement

The DPUC approved results from CL&P's Oct. 21 Last Resort Service procurement, for supplies for the period January through March 2009. Retail rates are to be published no later than Nov. 15.

PG&E Selects GE Smart Meters

GE Energy yesterday said Pacific Gas and Electric "plans" to deploy 10.3 million GE advanced meters equipped with Silver Spring Networks smart grid/advanced metering infrastructure communications technology, although approval of a higher revenue requirement remains the subject of an ongoing PUC case (A. 07-12-009). Consumer advocates have harshly criticized PG&E's application to upgrade its original smart metering technology choice (from electro-mechanical to solid state) and urged the PUC to restrain costs (Matters, 9/3/08).

Wind Installations to Slow in 2009

Because of the late extension of the wind production tax credit and the evolving financial crisis, new construction of wind generation is expected to slow in 2009, the American Wind Energy Association said in reporting another strong quarter of wind additions. AWEA said 1,389 MW of wind capacity was installed in the third quarter, for a year-to-date total of 4,204 MW. AWEA expects 7,500 MW installed by year-end. Texas led the quarterly additions with 693 MW, bringing its wind capacity beyond 6 GW.

Large Pa. Customers Against Rate Cap Extension

A dozen large consumers of electricity in Pennsylvania, many of them COMPETE Coalition members, urged Gov. Ed Rendell yesterday to resist the urge to extend the current electric rate caps or otherwise impede the smooth transition to market-based rates envisioned by 1996's electric choice law. The consumers, which included 7-Eleven, Macy's, and Wal-Mart among others, cited California's experience with rate caps and subsequent above-market long-term contracts, and also cautioned that proposals for an energy producer tax would harm customers by increasing prices.

Calpine Settles with Rosetta Resources

Calpine yesterday said it has a settled with Rosetta Resources all claims related to the July 2005 sale of substantially all of Calpine's oil and gas business to Rosetta. The settlement provides for a $97 million payment to Calpine from Rosetta and the conveyance of certain residual oil and gas properties by Calpine to Rosetta. The companies also are executing a 10-year extension of an existing dedicated reserves gas purchase agreement for Rosetta's California production located near Calpine's CPN Pipeline Company.

ConEd MSC ... *from 1*

benchmark," RESA said.

RESA suggested that the monthly price forecasts would not need to be included on bills, but could simply be posted on ConEd's website.

ConEd has proposed no change to the MSC Adjustment Factors, but RESA recommended that ConEd be required to identify percentage load by class for the MSC Adjustment Factors, so that ESCOs may develop more tailored pricing to better serve customers.

To provide further transparency and more accurate pricing to customers, RESA also requested that ConEd provide after-the-fact (4-month true-up) observed hourly Unaccounted for Energy (losses) by zone, because such critical data is needed to properly understand the MSC and MSC Adjustment calculations.

ConEd should also provide consumers with historical shadow billing for "a workable and reasonable period" that illustrates what the customer's bill would have been under the old MSC system and what it will look like under the new system. "With such pre-existing shadow billing in place, the consumers and their suppliers will be able to achieve a greater level of understanding and comfort with the new billing model once it is actually implemented," RESA said.

REP Certification ... *from 1*

differences in the collateral required for an (f)(1)(A) REP versus an (f)(1)(B) REP, does the rule adequately address what happens if a REP suddenly moves from one category to another as a result of a credit downgrade?

Nelson also requested stakeholder comment on whether new POLR and/or disclosure rules obviate the need for certain provisions of the newly proposed REP certification standards.

Nelson is concerned that if the Commission approved rules that drive existing companies out of business, the Commission will be sending a signal that competition is not working. "I do not believe that to be true and certainly do not want investors and lenders to think that is what we are saying," Nelson wrote.

Meanwhile, First Choice Power suggested that the Commission rein-in the use of Move-In transactions by REPs as a means to enhance market efficiency and decrease risks placed on REPs.

A number of REPs in the market are “unable” to execute off-cycle switch transactions to help expedite a customer's request for service to begin, which became very evident during this summer's POLR Lessons Learned Workshop, First Choice said (Matters, 6/12/08).

To compensate for this partial market functionality, these REPs routinely use Move-In transactions in situations when a switch transaction should be used. Further, many customers have learned that they can avoid cancellation or termination fees associated with term products by simply requesting a Move-In to initiate service, even though no "move" has occurred, First Choice added. "This limits a REP's ability to cost effectively hedge fixed-price positions and exposes the REP to significant potential losses," First Choice reported.

"While there may be other remedies to this situation, one solution would be to require TDSPs to reject move-in transactions for which no change in occupant at the premise occurred," First Choice recommended.

Since TDSPs receive customer information with the Move-Out and the subsequent Move-In, the data required to identify the fraudulent transactions already exists in the transaction set, according to First Choice. Per First Choice, "This change would improve a REP's ability to accurately forecast future load in order to create and implement an effective hedge strategy that would serve to limit price volatility for consumers."