Energy Choice Matters

December 25, 2008

Ameren Purchase of Receivables Likely Pushed Until Fall 2009

Purchase of receivables at the Ameren Illinois utilities may not be implemented until late October 2009 under a revised schedule dictated by system development and testing requirements as well as the procedural schedule at the Illinois Commerce Commission.

Originally, Ameren intended to implement utility consolidated billing (UCB) and POR functionality by June 1, 2009, in what was an "aggressive" target. However, the June 1 date no longer appears workable at this juncture, Ameren said in testimony filed at the ICC (08-0619 et. al.). From a solely technical perspective, Ameren expects UCB/POR to be ready as filed by September 1, barring any changes required by the ICC's order in the case.

However, the ICC schedule in the case contemplates that a final order is due by August 26, 2009. While Ameren said it is committed to providing the UCB/POR service in a timely manner, it has seen in recent cases that it can be very challenging to implement tariff, pricing and billing changes within a limited time frame, particularly in light of the fact that the tariff structure and resulting charges remain unknown until a final order is available. "It can be very challenging to accommodate unexpected provisions in a rate Order," Ameren noted.

Accordingly, Ameren is requesting a compliance period of 60 days subsequent to the date of the final order, during which it would finalize tariffs and pricing, and accommodate any other changes resulting from the outcome of the proceeding.

Under the Ameren POR program, a uniform discount rate would be applied across all three of its

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LDCs Ask FERC for Clarification on Capacity Release Exemptions for Agents of Retail Marketers

Several LDCs sought clarification of FERC's exemptions from new tying and bidding requirements for capacity releases associated with state retail choice programs (RM08-1, Matters, 11/21/08).

National Grid requested clarification that an LDC releasing interstate pipeline capacity as part of a state-approved retail access program may release such capacity directly to a marketer's asset manager as long as such asset manager has an obligation to supply gas to the marketer that is equivalent to the marketer's obligation to supply gas to the releasing LDC.

Grid explained that some of the marketers serving customers on its systems would prefer that Grid release the interstate pipeline capacity that would otherwise be available to the marketer directly to the marketer's designated asset manager.

It is National Grid's understanding that in many instances, the marketer wishes to effectuate the release of capacity in this manner so that the designated asset manager, not the marketer, will be required to meet the releasing pipeline's creditworthiness requirements. National Grid further understands that some smaller marketers may find it difficult to meet pipeline creditworthiness requirements.

National Grid asked that FERC to affirm that the capacity release exemption applies to such situations, as such releases merely avoid an unnecessary middle man that would otherwise exist in a situation in which an LDC releases capacity to a marketer and the marketer in turn releases capacity to an asset manager - a situation explicitly approved by the Commission in Order No. 712-A.

"During this period of economic turmoil and relatively tight credit, it is clearly in the public interest

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Delaware PSC Approves Nonbypassable Charge for Renewable PPAs

The Delaware PSC approved final RPS rules to allow costs from long-term renewable contracts entered into as the result of an integrated resource planning process for SOS to be recovered from all customers via a nonbypassable surcharge (Reg. Dckt. No. 56).

Although such contracts will be used to supply SOS customers, costs will be nonbypassable and paid by shoppers, as required under legislation (Matters, 8/7/08).

The PSC's revised RPS rules also implement a legislative mandate to count offshore wind purchased by Delmarva at 350% of the normal RPS credit, providing the contract is signed before the start of construction of the offshore facility. Delmarva will be entitled to such multiple credits for the life of the contracts for renewable energy derived from offshore wind installations.

Calif. PUC Draft Would Approve Upgrade to PG&E Smart Meter Program

The California PUC would authorize Pacific Gas and Electric to proceed with its proposed smart meter upgrade at a cost of $495 million under a proposed decision (A. 07-12-009). The draft would find that, on a present value revenue requirement basis, the upgrade is cost effective (Matters, 9/3/08). PG&E has been seeking $572 million in upgrade costs.

The principal components of the upgrade include an integrated load-limiting connect/disconnect switch, a home area network (HAN) gateway device, and an advanced solid-state meter. With the upgrade, PG&E's previously authorized advanced metering infrastructure (which used electro-mechanical meters, some of which have already been installed) will be comparable to programs authorized at San Diego Gas & Electric and Southern California Edison, the draft said.

At the time of the upgrade filing, PG&E had already procured 230,000 electro-mechanical meters intended for its Kern County region. Approximately 123,000 of these meters had already been installed and the rest were to be installed by mid-2008. PG&E has forecast $37 million in costs relating to the retrofit of meters deployed in the Kern region.

The draft would determine that the stranded costs related to the electro-mechanical meters should be considered as original AMI program costs, specifically under the risk based allowance for the original AMI project. Therefore, for purposes of the upgrade proceeding, the draft does not need determine whether PG&E should or should not have deployed electro-mechanical meters in the Kern region, or whether PG&E came prematurely to the Commission with its original AMI application.

The decision would adopt PG&E's incremental meter device cost estimates, and reduces incremental cost estimates for certain retrofit, demand response program, project management, information technology, operation and maintenance, and technology assessment costs, along with related contingencies.

The proposal would accept a two-tier peak time rebate for PG&E, rather than a single tier as proposed by PG&E. The draft defers the design of the incentive to PG&E's November 2009 rate design window filing.

Briefly:

Settlement Filed in Michigan Gas Utilities Corp. Rate Case

Michigan Gas Utilities Corp., Constellation NewEnergy, Michigan PSC Staff and other parties have filed a settlement agreement in Michigan Gas Utilities' rate case, which holds that future proposed changes regarding the declaration and billing of Operational Flow Orders will only be made in general rate cases, or other non-Gas Cost Recovery filings subject to notice. Constellation had raised concerns about proposed changes to OFOs as well as nomination limits (Matters, 7/21/08). Updated tariffs and terms and conditions are contained in Case U-15549. The settlement would set the cost of service margin revenue requirement at $60 million, an increase of $6 million, rather than the $14 million increase initially sought.

NUS Consulting Receives D.C., Delaware License

National Utility Service (d/b/a NUS Consulting Group) has been awarded electricity brokering

licenses in Delaware and Washington, D.C. NUS intends to broker C&I customers.

N.Y. Reliability Council Ups Reserve Margin to 16.5%

The New York State Reliability Council has filed at FERC to increase the state's installed reserve margin to 16.5% for the 2009-2010 Capability Year, up from 15.0%. Despite a lower load forecast, the installed reserve margin was pushed higher by an increase in equivalent forced outage rates, an updated forecast load uncertainty model, and greater wind capacity in the state. The margin was just lowered to 15% from 16.5% last year, which drew criticism from generators, whose ICAP sales are dictated by the reserve margin. Load, meaning utilities and marketers, will have procure more capacity under the higher margin.

Maine Energy Solutions Asks to Transfer Certificate to Affiliate

Maine Energy Solutions asked the Maine PUC to transfer its competitive electricity provider license to affiliate Northeast Energy Solutions.

Ameren ... *from 1*

Illinois utilities. Purchase of receivables would be at a discount off of face value without recourse.

The discount rate will not be known until a final order, but would include four components:

1. Anticipated uncollectible expense (bad debt, net write-offs);
2. A reasonable portion of implementation costs related to UCB (proposed at 25%, with remaining costs recovered via a customer charge);
3. Start-up costs related to POR; and
4. Incremental cost to administer the UCB/POR Program.

Ameren estimated the uncollectible portion of the discount rate to be 0.82% based on current data. Implementation costs are currently estimated at $2.9 million, of which about $800,000 would be included in the discount rate.

The final initial discount would be provided in an informational filing 30 days prior to the effective date of the rate. The rate would be adjusted annually.

By statute, POR would be limited to customers with a non-coincident peak demand of less than 400 kW. Eligible customers are those served on delivery service (DS) rates:

- DS-1 (residential customers);
- DS-2 (small general delivery service non-residential customers with a maximum monthly demand of less than 150 kW);
- DS-3a (general delivery service non-residential customers with a maximum monthly demand equal to or greater than 150 kW and less than 400 kW); and
- DS-5 (lighting service customers).

These customers would be categorized into two subgroups for the program. Subgroup A includes customers served on DS-1, DS-2 and DS-5. Subgroup B includes customers served on DS-3a.

A retail supplier would have to choose to include all eligible customers within a customer subgroup on UCB/POR, or exclude all customers within a customer subgroup from the UCB/POR program. This measure is meant to prevent cherry-picking of customers with favorable credit for dual billing, which would increase the discount rate.

Additionally, retail suppliers will be required to provide 60 days notice of intent to participate in the UCB/POR program. The initial contract term is 12 months. After the initial term, a retail supplier can terminate participation in the UCB/POR program with 60 days written notice. Upon such termination, the retail supplier will not be eligible to participate in the UCB/POR program for 12 months. Such measures are meant to prevent suppliers from participating in the program during certain seasons when customers generally pay their bills in a timely fashion or when Ameren has a disconnection moratorium, and then dropping out of the program when customers generally have a harder time paying their bills.

Retail suppliers will not be permitted to move an existing customer onto UCB/POR service if that customer has an unpaid balance for delivery service from Ameren which is greater than 60 days past due.

UCB would only be offered in connection with POR. Stand-alone UCB, also referred to as "pay as paid" UCB, and stand-alone POR, also referred to as "factoring," are not being offered by Ameren at this time. Ameren will be permitted to disconnect customers on POR for

failure to pay supplier receivables.

Remittance of the amount due to retail suppliers will be provided no later than one day following the customer's due date. Currently, this schedule would be 22 days for residential customers and 15 days for non-residential customers from the date the Ameren sends the bill to the customer, although certain customers have different due dates.

As noted above, a customer charge would recover 75% of UCB/POR implementation and start-up costs under Ameren's proposal, or about $2.1 million of the estimated $2.9 million. That translates into a monthly charge of about $0.04 to $0.06 per customer, uniform across the three utilities. Given the small size, the creation of an entirely separate line item on the monthly bill is undesirable from a programming cost and bill readability standpoint, Ameren said.

Technical changes to implement UCB/POR include "significant" modifications to the EDI transaction process, including multiple changes to existing EDI file formats. Ameren will develop a new retail supplier portal to support supplier activities associated with their mass market accounts (e.g. functionality to allow the supplier to apply a credit or debit to an account, modify supplier rate codes, bill message or prices). Modifications to Ameren's existing cancel/re-bill processes are required to automatically inform suppliers of changes impacting their accounts, and budget billing modifications must be implemented to support rate ready and bill ready functionality.

The Application Development phase of the project, which includes the design, code and unit test of the new functionality required to support UCB/POR, began on December 1, 2008 and is scheduled to be completed on July 1, 2009. Product test scripts and validation will be conducted from March through May 1, 2009. The Production Readiness Test Phase, which includes extensive testing with retail suppliers, will begin on May 4, 2009 and is scheduled to conclude on August 28, 2009.

Capacity Release ... *from 1*

for the Commission to grant the requested clarification in order to permit marketers to structure their supply arrangements as efficiently as possible," Grid said.

Grid also sought clarification that an LDC that releases capacity to an asset manager may require the asset manager to release capacity to marketers serving customers under the LDC's retail choice program as the need arises, and that such releases will qualify for the retail choice related exemptions from the prohibition on tying and bidding requirements. The need for this clarification arises from the fact that the number of customers participating in an LDC's retail choice program may change from time to time. Thus, an LDC may release its pipeline capacity to an asset manager and then find out subsequently that some of the LDC's sales customers have converted to transportation-only service; necessitating a release by the LDC of capacity to the converting customers' marketers, Grid explained.

National Fuel Gas Distribution sought similar clarification and rehearing, asking FERC to affirm that the prohibition against tying and the capacity release bidding requirements do not apply to releases by an LDC to a marketer when that marketer acts as an agent of a retail access marketer pursuant to a state-mandated retail access program.

Under a program regulated by the New York PSC, retail marketers are permitted to enter into agency agreements, by which a second marketer becomes the retail marketer's agent for the purpose of acquiring releases of capacity by Distribution under the choice program. The marketer acquiring the capacity would then be required to sell gas to the retail marketer to meet the retail marketer's obligations under the choice program.

"These types of releases occur because some of the retail marketers encounter difficulties in acquiring all or part of the capacity releases needed to meet their obligations under the retail unbundling program - for reasons of credit status, volumes needed, or other causes," National Fuel said.

"With regard to credit status, typically these retail marketers are unable to qualify for placement on pipeline approved bidder lists. In addition, of great concern for these marketers is their lack of expertise in the realm of capacity release," National Fuel added.

For example, retail marketers such as the Diocese of Buffalo, the City of Buffalo, Erie and Niagara Counties, the Villages of Hamburg and

Sloan and the Departments of Social Services for Chautauqua, Erie and Niagara Counties rely on the experience of their marketer agents to ensure transportation of gas supplies needed to serve their customers.

National Fuel explained that these marketers' agents are not "one-step removed from the situation under which Order No. 712 grants exemptions from tying and bidding," as FERC described in denying an earlier request from BP Energy to extend the exemptions to wholesale gas marketers

In the absence of the bidding exemption, marketers acting as agents for the retail marketers may pay higher than maximum cost-based rates, raising prices to retail consumers, contrary to the Commission's goal in establishing the exemption, National Fuel warned. Without the bidding exemption, the goals of some state-approved retail unbundling programs would be severely frustrated, with higher costs and/or reduced vendor choices for consumers, National Fuel said.