Energy Choice Matters

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TEAM Skeptical of Updated Nodal Cost-Benefit Analysis

Several REPs and load representatives questioned the conclusions of an updated ERCOT nodal market cost-benefit analysis, noting, among other things, that the claimed $5.6 billion wealth transfer from generators to consumers may not be seen (Matters, 12/19/08).

The Texas Energy Association for Marketers argued it is "difficult" to rely on the cost-benefit analysis as a basis for forming a conclusion on whether moving forward with nodal is in the public interest, given that the analysis actually estimates results for only two years of the 10-year period of the study. The total numbers reported are an extrapolation of those two-year estimates for the remaining eight years, TEAM noted.

Furthermore, the analysis is not risk weighted, TEAM added. The entire cost-benefit analysis assumes on-time, on-budget successful implementation based on the newly estimated budget and completion date, and is also premised on a single going forward estimate for the cost of natural gas, TEAM observed. In addition, there does not appear to be any consideration of the effect of the PUCT's actions with respect to Competitive Renewable Energy Zones or advanced metering -- both of which could have a significant impact on the going forward assumptions in the model, TEAM said.

While the analysis cited a $5.6 billion wealth transfer from generators to consumers, "[t]here is a general question regarding this alleged transfer of wealth when the generators are the predominant supporters of nodal," TEAM pointed out. The Steering Committee of Cities Served by Oncor agreed, arguing that the cost-benefit analysis, "assumes that wholesale sellers will sit idly by while consumers extract $5.6 billion from them." The Cities, which engaged McCullough Research to present a report

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PUCO Orders End of Transition Charges at two FirstEnergy EDCs, Shopping Credits/Caps Remain

Regulatory transition charges (RTC) will end at Ohio Edison and Toledo Edison, but rate stabilization charges, shopping credits and shopping credit caps will remain in the interim rates to be charged by all three FirstEnergy Ohio utilities on a temporary basis until FirstEnergy implements a rate plan consistent with SB 221, PUCO ruled yesterday.

Constellation Energy and others had argued that FirstEnergy was required to end the shopping credit and shopping credit cap paradigm because the credits were scheduled to end as part of the Rate Certainty Plan on December 31, 2008 (Matters, 1/6/09).

PUCO determined that SB 221 requires that FirstEnergy, due to the withdrawal of its Electric Security Plan, must continue the provisions, terms, and conditions of its most recent standard service offer, along with any expected increases or decreases in fuel costs from those contained in that offer, per Section 4928.143(C)(2)(b), Revised Code.

Thus, elements of the existing Rate Certainty Plan, including the shopping credit mechanism and the shopping credit caps, as well as rate stabilization charges, must continue. The Rate Certainty Plan does not explicitly set an end date for any of these charges separate from the plan's end date of December 31, 2008, and thus any extension of the Rate Certainty Plan must include extension of these elements, PUCO reasoned.

The Commission agreed that the shopping credit model may not have a place in a future standard service offer established either through an Electric Security Plan or Market Rate Offer.

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TDUs Report Logistical Hurdles to Faster ERCOT Switches

Implementing various changes to accelerate the switching timeline in ERCOT could take months, and would involve system, equipment, and labor expenses that will no longer be required as advanced meters are deployed, the joint TDUs said in comments on a PUCT Staff memo outlining options to speed customer switches.

Options outlined by Staff include eliminating the ERCOT postcard and rescission period, using out-of-cycle meter reads for all switches, or implementing both mechanisms (Matters, 1/6/09).

It is unlikely that out-of-cycle reads could be performed for all switches using the existing TDU workforce and resources, the TDUs said. CenterPoint Energy, for example, would have to perform about 1,000 additional meter reads per working day if all the switches in its territory required an out-of-cycle meter read, assuming they were spread evenly throughout each business day of the year, and the utility would need additional resources to do so. Hiring additional staff and purchasing the vehicles and equipment to perform out-of-cycle meter reads for all switches raises concern, because the advent of advanced meters will eliminate or reduce the need for the work and the equipment.

Whether the TDU hires employees or engages contractors, it would be many months before crews could be hired, trained, equipped, and deployed to perform out-of-cycle reads on the scale contemplated, TDUs said. This means that the program could not be implemented until after advanced meter installation has begun for many customers at Oncor and CenterPoint.

While estimating the out-of-cycle read may be a more feasible option for some TDUs in lieu of performing an actual out-of-cycle read for every switch, increasing the number of estimates in the market by 900,000, the number of annual switches, would raise its own set of associated impacts and concerns that the market needs to explore, TDUs noted.

Estimates are often disputed, and may not be acceptable to REPs and customers, particularly where a change of rate is involved, as is usually the case with a customer switch. Although the total usage can be confirmed on the basis of a subsequent actual read, the exact usage as of the day of the switch would remain an estimate. In addition, a cancel/rebill may be required after the actual usage is confirmed, thus creating additional workload for the market and possible customer confusion. In order to estimate all switches, changes to IT programming and systems would have to be developed, and it is again likely that many months would be required to implement the ability to carry out this number of estimates per day, TDUs reported.

While eliminating the ERCOT postcard would be simpler from a TDU perspective, TDUs noted removing the 15-day period associated the postcard and rescission period would likely increase inadvertent gain issues in the market and increase cancel/rebill transactions required to correct the inadvertent gain. Currently, approximately 60,000 switches are cancelled, by the customer or the REP, during the 15-day rescission period. If that period is eliminated, it is possible that many of these switches will be completed, and have to be un-done after the fact, TDUs said.

TDUs pointed out that the out-of-cycle meter read is currently considered a "discretionary service" in the TDU standard tariff, meaning rather than all customers paying for the service, the cost is charged to the customers who benefit. If the cost is instead spread to all customers, those who never or very rarely change their REP will pay for choices made by others, TDUs noted.

"Charging the REP of the customer who requests the switch for the costs associated with the switch may still be the better approach, even if the process is changed such that all switches occur off-cycle," TDUs reasoned.

It is not clear that the current TDU fee for an out-of-cycle meter read is the reason that most switches now occur on-cycle, TDUs said. The current fee is nominal and a timely switch to a lower rate can easily save the customer the amount of the fee. Therefore, paying the fee is already the rational economic choice for many customers, and yet only about 10% of the switches in the market are off-cycle. Therefore, the Commission could consider changing the process to encourage, or even to require, off-cycle switching, and adjusting the current out-of-cycle meter read fee to recover the actual costs of the new process.

Briefly:

ICC Approves Procurement Plan

The Illinois Commerce Commission approved the Illinois Power Agency's electricity procurement plan for Commonwealth Edison and Ameren customers not served on hourly pricing, establishing an annual RFP process initially meant to ladder procurement over three years with about one-third procured each year (Matters, 10/22/08). A final order was not available yesterday, but the approved IPA plan will procure supplies that will be blended with legacy descending clock auction contracts, as well as bilaterals signed as part of 2007 rate relief legislation. The IPA's RFP will be held in the spring. Future procurement plans will examine the use of long-term contracts and more frequent procurements. The ICC has hired Boston Pacific to monitor the procurement process.

ICC Denies Appeal of ALJ Ruling Allowing BlueStar ABC Complaint to Proceed

The Illinois Commerce Commission denied an appeal of an ALJ's ruling which rejected a motion to dismiss a complaint from BlueStar Energy Services against American Energy Solutions, Affiliated Power Purchasers International and Lower Electric (Matters, 12/2/08). A written order was unavailable yesterday. The complaint alleges the brokers failed to disclose remuneration as required by the new ABC law.

PUCO Approves Lower Rates for Ormet

PUCO approved lower interim rates to be charged to Ormet by AEP Ohio due to the expiration of their current arrangement and the lack of a new agreement or approval of AEP's Electric Security Plan, but noted the Commission is not granting recovery of the deferred amounts arising from the reduced interim rates at this time (Matters, 12/30/08). Under the interim rates, Ormet will pay currently applicable tariff rates for generation (ranging from 1.9¢/kWh to 2.4¢ depending on AEP service area plus demand charges), instead of the 4.3¢/kWh in its previous arrangement with AEP. The lower rate is needed, Ormet and AEP said, due to current economic circumstances at the aluminum manufacturer. The Ohio Consumers' Counsel opposed the arrangement as discriminatory, and noted it will raise the rates of other customers to recover the costs of the discounted Ormet rates. Given the market price for generation to serve Ormet is 5.3¢/kWh, the delta revenues are greater than $4 million per month, OCC said.

OnDemand Energy Receives Delaware Broker License

The Delaware PSC approved an electricity broker license for OnDemand Energy, which intends to broker C&I customers. Pennsylvania-based OnDemand Energy is also seeking a Maryland broker license, though it has already arranged supply for several Maryland customers (Matters, 10/22/08).

Over 45% of NRG Shares Tendered to Exelon

NRG Energy shareholders have tendered 45.6% of their stock in a hostile takeover bid by Exelon, with Exelon announcing it will extend its offer through February 25. Though falling short of a majority needed for control, Exelon said the results are ahead of its expectations.

Kelliher to Step Down as FERC Chair

Joseph Kelliher announced he will step down as FERC Chairman effective January 20, 2009. Though he will initially remain as a Commissioner, Kelliher said in a statement he will immediately begin to recuse himself from FERC business as he explores other career opportunities. Kelliher's term expires in 2012.

FPL Energy Changes Name to NextEra Energy

FPL Energy is rebranding itself as NextEra Energy Resources, meant to reflect its, "clean energy mission and market focus." NextEra announced it will also supply Daytona International Speedway and Homestead-Miami Speedway with RECs in a five-year deal. NextEra will also sponsor the Nascar Truck Series Race at Daytona on Feb. 13, called the NextEra Energy Resources 250, as well as indycar and sportscar events at Homestead-Miami Speedway.

Nexant Acquires Excelergy

Software and consulting firm Nexant has acquired Excelergy, the software developer that provides various backoffice solutions for utility electronic complex billing, settlement, and customer care processes. Excelergy's applications automate forecasting, trading, scheduling, billing, settlement, and customer acquisition and care for generators, traders, utilities, distribution companies, retailers, transaction hubs, application service providers, and market operators, Nexant said.

FERC OKs Revised TCC Credit Calculation at NYISO

FERC accepted the New York ISO's proposal to revise the formula for calculating the Transmission Congestion Contract mark-to-market credit requirement (ER09-378). Under the change, NYISO will calculate the credit requirement daily based on a rolling 90-day average of the net congestion rents, instead of monthly based on the average net congestion rents for the prior three months (Matters, 12/8/08).

PUCT Staff Sets Workshop on Oncor Low-Income In-Home-Monitors

PUCT Staff will hold additional workshops relating to the distribution of in-home-monitors for eligible low-income customers as part of Oncor's advanced metering deployment on February 9-10.

Constellation Subsidiary Selected for DOE Contract

Constellation Energy's Projects & Services Group has been awarded an Indefinite Delivery Indefinite Quantity Energy Savings Performance Contract (ESPC) by the U.S. Department of Energy (DOE).

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on the cost-benefit analysis, claimed, "[i]t is difficult to imagine that generators would support a transition that would cost them $5.6 billion over the next ten years."

The cost-benefit analysis assumes a total net present value of $5.6 billion in revenues from the Congestion Revenue Right (CRR) auctions that will benefit consumers. While CRR auction revenues under nodal would get distributed to loads on a load-ratio share, load also pays the congestion costs that go to reimburse the CRR holders -- "in one pocket and out the other," TEAM observed. Furthermore, any market participant can purchase CRRs under the nodal design, including financial entities. "It is reasonable to assume that those entities expect to make a profit on those purchases," TEAM said, and payments to the CRR holders will come from the load that receives the revenues of the CRR auctions. The Oncor Cities also noted that the cost-benefit analysis includes congestion rents for 2009 and 2010, years in which the nodal market is not projected to be in operation

Potential benefits associated with more efficient siting of new generation under nodal may not be realized, TEAM reasoned, because nodal price signals may show that the most economic place to site generation is the middle of downtown Dallas or the center of other urban load pockets, which are not a feasible location for a power plant.

While the cost-benefit analysis indicates that out of merit (OOM) payments will go away with nodal, it fails to recognize that hourly and day-ahead Reliability Unit Commitment charges will be initiated under nodal as a substitute for today's OOM charges, TEAM pointed out.

TEAM noted the $575 million estimated annual benefit does not seem consistent with the current estimated local congestion costs of $150 million. According to ERCOT reports, the level of local congestion costs continues to decrease substantially, TEAM observed.

The cost-benefit analysis does not take into account the increased credit cost and market participant exposure associated with participation in the day ahead, real time, and CRR markets, TEAM said. The market participant implementation costs is estimated at $175 million in the analysis, and it is stated that $103 million has already been spent, yielding a remainder of $72 million in spending. However, much of the $103 million that has already been spent will have to be spent again due to the delay in implementation, TEAM reported. For example, employees that were trained in 2007 will need to be retrained prior to implementation in 2011.

The cost-benefit analysis also includes no recognition of the costs to market participants based on the uncertainty of long-term contracts for power supply because of the uncertainty of nodal. "Essentially, we are having to price in an unknown risk premium into our prices to take into account the uncertainty of the project completion date," TEAM explained.

TEAM urged the Commission to look carefully at the experience of other markets that have attempted to implement a nodal market design. Other jurisdictions have not reported a benefit of siting of new generation associated with nodal, TEAM said, nor have other jurisdictions experienced lower prices to end-use consumers as a result of implementing nodal. Further, after years of trying, California has not yet successfully implemented nodal, TEAM reminded.

The South Texas Electric Cooperative reported that projected production cost savings in nodal ($48 million) amount to just 0.39% out of a total production cost of $12 billion. It is highly unlikely that the sum of errors inherent in the modeling process total to less than 0.39%, and a cumulative error of just one-half of one percent could be enough to reverse the assignment of benefits, the cooperative said.

But the Texas Competitive Power Advocates, composed of generators and wholesale marketers, called the cost-benefit analysis' findings, "compelling and inarguable," noting the net benefits reported in the study give every reason to "stay the course" on implementation. Furthermore, TCPA noted that ERCOT's independent market monitor has consistently advocated a nodal market as the best and most effective remedy for the numerous inefficiencies of the current zonal market.

Reliant Energy also favored continuation of nodal market implementation, contending that, aside from the quantifiable benefits in the analysis, the nodal market will also provide improved information to the PUCT and independent market monitor, which will enable better market monitoring.

The nodal market is not only expected to reduce the occurrence of price spikes and other anomalies, Reliant said, but it will also mitigate their effects when they do occur. Regarding the congestion-related price spikes that occurred last spring, the independent market monitor stated that under the current zonal market, "the pricing effects of such irresolvable constraints are much more geographically widespread than would be the case under nodal dispatch and pricing," Reliant observed.

Luminant, Exelon, Calpine, and NRG Texas, noting the narrowed benefits reported versus the previous cost-benefit analysis, urged the PUCT to develop a Nodal Implementation Advisory Board comprised of a select group of ERCOT market design professionals representing all market segments of ERCOT. The group would seek further, detailed review and analysis of issues relating to the implementation of the nodal program before certain on-going activities with respect to the program continue forward.

FirstEnergy ... from 1

The Rate Certainty Plan does specifically provide end dates for the regulatory transition charges -- December 31, 2008 for Ohio Edison and Toledo Edison and December 31, 2010 for Cleveland Electric Illuminating. Accordingly, the transition charges must end effective January 1, 2009 at Ohio Edison and Toledo Edison, PUCO said.

FirstEnergy's proposed interim tariffs contained provisions for a Fuel Recovery Mechanism (FRM), a Regulatory Transition Charge Offset (RTCO) Rider, and a Fuel Cost Recovery (FCR) Rider. The Fuel Recovery Mechanism was authorized in the Rate Certainty Plan to collect specific amounts in the years 2006, 2007, and 2008, and the Fuel Recovery Mechanism offset the Regulatory Transition Charge amounts pursuant to the RTCO Rider.

Given that the fuel cost amounts were previously collected and the fact that PUCO terminated the Regulatory Transition Charge, the Commission found that the Fuel Recovery Mechanism and the Regulatory Transition Charge Offset should also be terminated. The Fuel Cost Recovery Rider, which was implemented to recover the 2008 actual fuel costs, will remain in place for the limited purpose of collecting all remaining 2008 actual fuel costs that may be necessary pursuant to the Fuel Cost Recovery Rider reconciliation mechanism.

PUCO dismissed concerns regarding FirstEnergy's changes in criteria for calling interruptions under interruptible rates raised by Nucor Steel as outside the scope of FirstEnergy's tariff filing, and said Nucor should file a complaint if it wishes to bring the issues before the Commission. PUCO did stress, however, that any deviations from the general parameters of the Rate Certainty Plan and the current state of the industry, without specific justifications in the Rate Certainty Plan, tariffs, or law may violate the spirit of the law.