Energy Choice Matters

January 28, 2009

Energy Plus Applies for Connecticut License

Energy Plus Holdings has applied for an electric supplier license in Connecticut, requesting authority to sell to residential, commercial and industrial customers.

Connecticut, with its recent introduction of Purchase of Receivables and other marketer-friendly initiatives, has always seemed like a good fit for the fast-growing mass marketer (as well as similar retailers looking for the next unsaturated territory), which we took pains to note during last year's KEMA conference (see Matters, 3/12/08 pp. 5-6 and 3/17/08 pp. 2-5).

Energy Plus' standard Connecticut product would be a variable monthly rate for full requirements service, including energy, capacity, reserves, congestion, reliability-must-run contracts, and other generation-related charges.

Energy Plus told the DPUC its overall pricing strategy is to take as little commodity risk as possible, and that the marketer brings value to customers by offering a month-to-month product with supplemental benefits made possible through programs offered by Energy Plus. With senior executives that hail from the credit card and merchant services industry, Energy Plus has focused on developing affinity and reward programs with several companies, including various airlines and hotels. Additionally, it has signed several affinity programs with numerous professional organizations and trade associations in New York.

Though it received its Texas license in October of last year, Energy Plus told the DPUC it is only selling electricity in New York at this time.

While reserving the right to use all approved means of contracting customers, Energy Plus said it will initially obtain most customer authorizations for enrollment through electronic means. Energy Plus

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Bilateral Contracting for Unfilled Md. SOS Load Could Harm Ratepayers, ConEd Energy Says

The Maryland PSC's decision to order Baltimore Gas and Electric and Delmarva Power to negotiate bilateral contracts to fill unserved mass market SOS supply tranches may harm ratepayers, wholesaler Consolidated Edison Energy said in a petition for reconsideration (Case 9064).

The PSC opted for the bilateral contracting after three separate RFPs failed to fill 17 blocks of BGE residential load and two blocks of Delmarva combined residential and Type I commercial load, due to prices in excess of the Price Anomaly Threshold (Matters, 1/26/09). The PSC directed that negotiations be limited to bidders that submitted the lowest offer for at least one of the blocks available.

Such a restriction on the pool of suppliers that may compete for the bilateral contracts will harm ratepayers by reducing competition, ConEd Energy argued. Noting wholesale prices have fallen since the January 12 solicitation, ConEd Energy contended that bilateral negotiations will not likely capture the full benefit of such price decreases if a limited pool of suppliers know they are only competing against the Price Anomaly Threshold (PAT) in effect during the January 12 auction, and not a broader group of suppliers.

Furthermore, ConEd Energy worried that suppliers qualified for such bilateral negotiations will gain competitive knowledge about the Price Anomaly Threshold (PAT) level either implicitly or explicitly, and thus some understanding of how the PAT is calculated.

PSC Staff should conduct, or at least observe, the bilateral negotiations to prevent affiliate abuse, ConEd Energy added.

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LSEs, Capacity Suppliers File Settlement Over 2002 NYISO Capacity Underprocurement

Capacity suppliers and LSEs have filed a $2.675 million settlement at FERC to resolve all claims arising from the New York ISO's underprocurement of capacity during the summer of 2002, which deprived capacity suppliers of revenue (EL05-17).

Under the settlement, the LSEs below would pay the following amounts:

Consolidated Edison	$1,703,500
New York Power Authority	292,500
Central Hudson	112,500
LIPA	112,500
NYSEG/RG&E	112,500
Niagara Mohawk	112,500
Consolidated Edison Solutions	100,000
Constellation NewEnergy	100,000
Orange and Rockland	19,000
Gateway Energy Services	10,000

Payments will be distributed to suppliers in the following amounts:

Reliant Energy	$1,700,000
NRG Power Marketing	300,000
Dynegy	675,000

The settlement, as proposed, would extinguish any and all claims against LSEs from any New York capacity supplier in relation to the NYISO underprocurement of capacity. The underprocurement resulted from using different methodologies to set unforced capacity (UCAP) as it relates to capacity obligations. An earlier settlement resolved claims from KeySpan-Ravenswood, but other suppliers successfully expanded Ravenswood's original complaint to include other in-City and Rest of State suppliers (Matters, 8/18/08).

In an earlier filing, generators said underprocurement of capacity by LSEs during the Summer 2002 Capability Period cost Rest of State (ROS) capacity suppliers $21 million in lost revenue, while costing in-City suppliers over $43 million (Matters, 10/28/08).

RESA Urges $300-400K for ConEd Retail Access Education

An allocation of $8,000 to Consolidated Edison retail access Outreach and Education, proposed in a recommended decision in ConEd's rate case, is, "unreasonable and manifestly insufficient," to accomplish the tasks required of ConEd, the Retail Energy Supply Association said in a brief on exceptions (08-E-0539, Matters, 1/9/09).

RESA recommended that $300,000 to $400,000 should be collected from distribution rates to be used for education, not promotional, activities related to the restructured New York market.

During 2007, ConEd spent $1.6 million on retail access Outreach and Education, for efforts including bill redesign, business and residential events, distribution of ESCO lists, and Power Your Way educational reminder items. Such activities are educational and not promotional, RESA said, and should not be rolled into ConEd's general Outreach and Education budget as proposed by the utility.

Staff, however, insisted that "explicit" Commission policy holds that objective retail access education, "would fall within the ambit of usual utility [Outreach and Education] O&E budgets for customer education purposes," rather than a separate revenue requirement. "[I]t seems almost reflexive that the maintenance of an up-to-date list of retail electric energy suppliers will be among the objective information on the availability of retail access that will be continued and funded out of the Company's usual utility O&E budget," Staff said.

In addition to restoring $8,000 for ESCO lists, the recommended decision would allow $650,000 for the costs of a Green Power Campaign, and $72,000 for a Green Power bill insert. Staff objected to the amounts, noting, "it is not even clear from the record that there will be a Green Power campaign in the Rate Year."

MISO, TOs Assail "Settlement" for Market Coordination Service

A purported settlement offer that "fundamentally rewrites" the Midwest ISO Market Coordination Service proposal at this late hour, without any preliminary discussion with the Midwest ISO and potential Market Coordination Service customers, "seems more of a delaying tactic rather than a serious attempt at finding a compromise," the Midwest ISO blasted in critiquing a proffered settlement from Alliant Energy and the Midwest TDUs (Matters, 1/13/09).

Market Coordination Service is a MISO proposal that would allow transmission owners to access MISO LMP markets without joining MISO as full transmission-owning members, or ceding operational control of their grids to MISO (ER08-637). Several TDUs and other LSEs have expressed concerns that the proposal could balkanize the MISO market and encourage full members to leave MISO as transmission owners and take Market Coordination Service to escape various cost sharing responsibilities.

The settlement was proposed only by Alliant and the TDUs, neither of which would be a Market Service customer. It would limit Market Coordination Service to a five year trial membership, place a cap on regional transmission expansion costs paid by Market Service customers, and prevent existing transmission owners from taking Market Coordination Service.

The settlement would also make Market Service customers subject to a contested proceeding at FERC if they sought to discontinue the service at the end of the five-year trial, rather than join MISO as a full member. Such, "RTO withdrawal-type proceedings would surely kill any desire on the part of potential [customers] to experiment with this option," MISO said.

The MISO Transmission Owners were alternatively concerned customers could enjoy Market Coordination Customer status indefinitely, under a provision that would allow an extension of the five-year trial if such extension was found to be in the public interest.

The "one-sided" settlement would create new discriminatory treatment by disallowing existing Midwest ISO transmission owners from participating in the new service, Ameren and Otter Tail Power added.

"The resulting Offer of Settlement is so one-sided and so lacking in details that consideration of this new, alternative 'settlement' structure would represent a huge step backward from the current state of deliberation over the concept of Midwest ISO market expansion pending in this proceeding," Ameren and Otter Tail Power said

The Western Area Power Administration called the settlement offer unjust and unreasonable because it would decrease Western's ability to charge pancaked transmission rates over a three year transition period, with total elimination in year four, which would not allow Western to mitigate the rate impacts to existing customers.

MidAmerican Energy, one of the few potential Market Coordination customers, urged FERC to simply reject the "vague and undefined" terms of the settlement offer and issue a decision on Market Coordination Service as filed as soon as possible.

NextEra Energy Sees Record Earnings for 2008

A strong fourth quarter at NextEra Energy Resources fueled record earnings on an adjusted basis, as new assets and strong performance from the New England and Texas fleet drove results.

NextEra Energy posted fourth quarter 2008 net income on a GAAP basis of $265 million, up from $72 million in the prior-year quarter. Excluding the mark-to-market effect of non-qualifying hedges and other than temporary impairments, adjusted fourth quarter earnings for NextEra Energy were $218 million, compared to $132 million a year ago.

Yearly NextEra earnings were $915 million on a GAAP basis, up from $540 million in 2007, with record adjusted yearly earnings of $821 million.

NextEra's earnings growth was driven largely by new assets, primarily wind projects and the Point Beach nuclear power plant, and "very strong " performance by existing assets, notably NEPOOL assets and ERCOT fossil assets that benefited from favorable market conditions.

For 2009, NextEra said more than 90 percent of expected equivalent gross margin from its existing asset portfolio is protected against commodity price volatility. For 2010, the comparable figure is about 89 percent.

NextEra added 1,300 MW of wind capacity during 2008, bringing its North American total wind capacity to 6,375 MW. For 2009 NextEra still expects to add approximately 1,100 MW of wind. NextEra believes its original goal of adding 7,000 MW to 9,000 MW over the 2008 to 2012 time frame is still within reason.

Parent FPL Group reported GAAP 2008 fourth quarter net income of $408 million, up from $224 million in the fourth quarter of 2007.

Detroit Edison Files Another Rate Case, Would Keep Choice Incentive Mechanism

Citing declining sales from the economic downturn, Detroit Edison filed an electric rate case at the Michigan PSC, just one month after receiving a rate hike (U- 15768).

Detroit Edison said in testimony that under its application, choice distribution rates were designed at cost-based levels, while full-service distribution rates were designed to recover both cost-based levels plus the remaining level of inter-class rate subsidies.

Detroit Ed also applied to continue the Choice Incentive Mechanism, given the, "inherent level of uncertainty and volatility in Electric Choice." Company witnesses said that Edison's investment risk remains above average, due in part to the continuing exposure that Detroit Ed has to customer choice load, despite a 10% cap on choice sales that was pushed by the utilities as needed for stability.

Despite the legislative cap, Edison said Michigan's approach to electric restructuring is still unique when compared to restructuring in other states. "Michigan is the only state to grant customer choice, but not deregulate electric utility generation ... [Detroit Edison] continues to be obligated to provide electric supply at cost-based rates, and customers are free to switch suppliers and subsequently return to [Detroit Edison's] regulated, cost-based generation rates at any time, and for any reason to capture the lower of market or cost-based prices," Edison said in testimony.

Yet testimony also described the forecast of choice sales as, "relatively stable," with choice not expected to have a significant effect on residential customers. Commercial choice sales are expected to grow from 1,569 GWh in 2007 to 1,819 GWh in 2018, while industrial choice sales are expected to fall from 652 GWh in 2007 to 181 GWh in 2018.

Overall, based on sales reported through October 2008 and an extrapolation of the trend for the year, Detroit Ed said electric choice sales should reach 1,409 GWh for the year 2008. It projected a decrease to 1,245 GWh in 2009 and increase to 1,948 GWh in 2010, with the forecast held constant at 2,000 GWh for 2011 through 2018.

Briefly:

Hudson Energy Applies for Additional REP Certificate

Hudson Energy Services applied for an additional REP certificate at the PUCT, for legal entity Hudson Energy JV. In its application, Hudson reported that over the 12 months ending December 2008, Hudson serves 20,000 commercial and residential customers in ERCOT, and 61,000 commercial and residential customers in other markets in the U.S. At the end of 2008, Hudson served customer load of 2.1 TWh of annual consumption in ERCOT and almost the same amount in other markets in the U.S., Hudson said. Hudson Energy JV would meet PUCT financial qualifications via unused cash resources of at least $100,000.

DPU Denies Alternate Power Source Congestion Cost Complaint

The Massachusetts DPU denied a complaint from wholesaler Alternate Power Source which argued that Western Massachusetts Electric Co. inappropriately passed congestion costs from a 2000 SOS supply contract to Alternate Power Source (docket 08-3, Matters, 2/19/08). While Alternate Power Source contended the DPU ruled in a case involving Fitchburg Gas & Electric that SOS congestion costs should be recovered through the transmission charge and not from the SOS supplier, the DPU noted the Fitchburg contract and Alternate Power Source's contract were different. In its contract with WMECo, Alternate Power Source "clearly assumed" responsibility for congestion charges, the DPU found, adding that Department orders and regulations do not preclude parties from negotiating responsibility for congestion charges in the individual standard offer service contracts.

DPUC Denies Submetering Application due to Choice Restriction

A final Connecticut DPUC decision denying Becker Development Associates' submetering application upholds arguments set forth in two drafts that found that submetering would deprive customers of their right to choose a competitive retail electric supplier, and thus would be contrary to state law (Matters, 1/21/09).

Energy Plus ... *from 1*

will typically solicit Connecticut customers through telemarketing and distribution of mass marketing materials.

Energy Plus listed its expected customer count for its first year of Connecticut operations as 4,000 (3,400 residential, 600 commercial), and projected first-year sales of 23,000 MWh (14,000 MWh residential, 9,000 MWh commercial). Initially, Energy Plus will use utility consolidated billing for all its Connecticut customers, which will allow it to take advantage of the utilities' Purchase of Receivables programs.

Md. SOS ... *from 1*

While the Price Anomaly Threshold (PAT) is intended to safeguard solicitations from abnormally high, uncompetitive offers, ConEd Energy argued that the current PAT's market assumptions and calculations do not reflect the full costs of supplying customers with electricity, resulting in the rejection of fair, competitive bids.

Each RFP had 11 suppliers competing for the BGE load and seven suppliers competing for the Delmarva load, in line with previous competitive auctions, ConEd Energy noted. While high prices from the first RFP in October 2008 may have seemed anomalous, the repeat of such pries in two subsequent RFPs, despite widespread supplier participation, show the bids are not abnormal, but rather indicative of current market conditions, ConEd Energy said.

ConEd Energy agreed with previous findings from BGE that the Transaction Cost and Risk Adder in the PAT is unrealistically low, or that the cost derivation is flawed, or a combination of both.

If a non-market reflective PAT continues to thwart the efforts of participating suppliers, suppliers may begin to turn away from the Maryland SOS RFPs in favor of other markets, ConEd Energy cautioned, reducing competition and thus raising prices.