Energy Choice Matters
February 3, 2009

# AEG Shopping 100,000-Meter ERCOT Book

AEG Affiliated Energy Group is shopping a 100,000-meter ERCOT book on behalf of a large ERCOT REP seeking to explore strategic merger, acquisition and sale opportunities.

AEG, which specializes in M&A and other energy consulting, says the REP has strong historic customer growth rates, substantially positive EBITDA of approximately $15 million on an annual basis, and serves almost 100,000 meters with load exceeding 2 million MWh annually.

According to AEG, the aggregate credit score of the REP's customer portfolio is among the highest in the industry. It is principally composed of small commercial and residential customers, with some large commercial users.

The book represents a unique opportunity for a new entrant, including an international retailer, to "establish a strong foothold in North America's most vibrant deregulated energy markets," said Chad Price, Executive Vice President of AEG. Price said that the REP constitutes, "perhaps the only full scale Texas-based REP achieving profitability during each month of 2008 despite the international financial crisis and a number of obstacles that knocked several other large REPs out of the Texas markets."

AEG is fielding inquiries on behalf of the unnamed REP on a blind-inquiry basis. AEG last fall completed the sale of Commerce Energy's ERCOT book to Ambit Energy.

# Calif. PUC Opens Investigation of Calpine LSE Resource Adequacy Deficiency

The California PUC issued a show cause order to electric service provider Calpine Power America-CA, LLC, directing Calpine to show why it should not be fined over $730,000 for various Resource Adequacy (RA) deficiencies, as the PUC opened an investigation (I 09-01-017) to determine whether a Staff report shows that Calpine violated Commission rules and directives related to RA compliance.

In October 2007, Calpine submitted a Year-Ahead System Resource Adequacy Requirement (RAR) Compliance filing, which is required under the PUC's RA rules to demonstrate that an LSE has acquired sufficient resources to satisfy 90% of its forward commitment obligation for loads plus reserve commitment for each of the five summer months May, June, July, August and September, in the year-ahead. However, Calpine's System RAR filing included a contract that was scheduled to expire, thereby overstating its available resources, resulting in a System RA deficiency totaling 70.37 megawatt-months between the months of July, August, and September for 2008, the PUC said.

Energy Division Staff notified Calpine of the deficiencies on December 13, 2007, and Calpine submitted an amended filing on December 21, 2007, showing that it had acquired the necessary additional capacity to cure the deficiencies.

Notwithstanding Calpine's belated correction of the deficiencies, Calpine's failure to comply with the year-ahead filings by October 31, 2007 is subject to penalties pursuant to D.05-10-042 and D.06-06-064, the PUC said.

The Commission stressed that Calpine's non-compliance is a "serious" issue because it could have led to the California ISO taking costly remedial measures, such as backstop procurement.

The penalty for failing to procure adequate capacity is three times the monthly cost of new capacity, which is valued at $40/kW-year. Calpine's 70.37 MW-month deficiency would be subject to a penalty of $703,700 using the prescribed amount for capacity ($40) and penalty multiplier (300%).

Calpine's October 2007 Local Resource Adequacy Requirement compliance filing also used

... Continued Page 5

## BGE Files Revisions to Energy, Administrative Cost Adjustments

Baltimore Gas and Electric submitted proposed adjustments to its Energy Cost Adjustment and Administrative Cost Adjustment. The Energy Cost Adjustment is an adjustment to reflect the actual costs of providing energy and transmission-related services, by comparing retail billing to BGE's payments to wholesale suppliers and PJM. Under the Administrative Cost Adjustment, administrative charge revenues collected in excess of the return and incremental costs to provide SOS are fully credited to all distribution customers eligible for SOS.

**BGE Rider 8: Energy Cost Adjustment**

| Rates | Feb.-May '09 |
|---|---|
| R, ES | 0.187¢/kWh |
| RL-1, RL-2 | 0.349¢/kWh |
| G - Type I | (0.194)¢/kWh |
| GS - Type I | 0.642¢/kWh |
| G - Type II | (0.154)¢/kWh |
| GS - Type II | 0.682¢/kWh |
| GL - Type II | 0.474¢/kWh<br>25¢/kW |
| P - Type II | 0.474¢/kWh<br>25¢/kW |
| Hourly Service | 0.135¢/kWh |

**BGE Rider 10 - Administrative Cost Adjustment**

| Rates | Feb.-May '09 |
|---|---|
| R, ES | (0.074)¢/kWh |
| RL-1, RL-2 | (0.074)¢/kWh |
| G - Type I | 0.158¢/kWh |
| GS - Type I | 0.158¢/kWh |
| G - Type II | (0.097)¢/kWh |
| GS - Type II | (0.097)¢/kWh |
| GL - Type II | (0.097)¢/kWh |
| P - Type II | (0.097)¢/kWh |
| Hourly Service | --- |

## Detroit Edison Adjusts Proposed School Cost-Based Rates

As directed by Michigan PSC Staff, Detroit Edison submitted revised cost-based rates for schools, using a different cost allocation methodology than originally used to develop the new proposed rates (Matters, 1/7/09).

Legislation requires cost-based rates for schools. PSC Staff directed Detroit Edison to amend its previous proposal to implement cost-based rates by using the 50-25-25 cost allocation formula, under which the first component is the average of the 12 monthly coincident peaks weighted 50%, the second component is energy use coincident to the Midwest ISO on-peak period weighted 25%, and the third component is total energy use weighted 25% (U-15751).

Under the revised allocation, schools with secondary voltage (Rate D-3.2) would have an energy charge of 6.75¢/kWh, instead of the originally proposed 6.966¢/kWh. Combined with the Power Supply Cost Recovery, Regulatory Asset Recovery Surcharges, and Enhanced Security fee, the total power supply cost for schools under D-3.2 would be 6.81¢/kWh, versus the originally proposed 7.03¢/kWh, and the current 6.45¢/kWh.

Schools at primary voltage (Rate D-6.2) would receive the same energy charges as originally proposed (4.162¢/kWh on-peak and 3.8624¢/kWh off-peak), but would have a lower demand charge of $9.80/kW of on-peak billing demand, rather than the originally proposed $11.00/kW. Voltage-level discounts for Rate D-6.2 would remain the same as previously proposed. Combined with the Power Supply Cost Recovery, Regulatory Asset Recovery Surcharges, and Enhanced Security fee, the total power supply cost for schools under D-6.2 would be 6.36¢/kWh versus the originally proposed 6.65¢/kWh, and the current 6.24¢/kWh.

Under cost-based rates, delivery rates will be the same for full service and choice customers, as full service school customers will no longer pay a residential subsidy, which made competitive supply more attractive.

The annual revenue reduction resulting from providing cost-based tariffs to educational institutions under the updated cost allocation is $16.1 million, down from the originally projected $21 million. Detroit Edison proposed a surcharge on all full service customers to recover the shortfall, to be collected upon approval of the new school rates. In the alternative, Detroit Edison suggested deferring recovery of the surcharge via a regulatory asset.

# Allegheny Files Type II Maryland Rates

Allegheny Power submitted new Type II rates for Maryland customers, for the period March 1 through May 31.

**Allegheny Type II Rates, March-May 2009**

**Schedule C**

| Energy Charge ($/kWh) | |
|---|---|
| First 350 kWh | $0.10166 |
| Next 350 kWh | $0.09988 |
| All other kWh | $0.03913 |

**Schedule G**

| Capacity Charge ($/kW) | |
|---|---|
| All kW in excess of 7.5 measured as set forth under "Determination of Capacity" | $6.43 |
| **Energy Charge ($/kWh)** | |
| First 700 kWh | $0.08446 |
| All other kWh | $0.03911 |

**Schedule C-A**

| Energy Charge ($/kWh)^ | |
|---|---|
| First 350 kWh | $0.11261 |
| Next 350 kWh | $0.09797 |
| All other kWh | $0.05160 |

^Rates not applicable to certain schools/churches

**Schedule PH**

| Capacity Charge ($/kW) | |
|---|---|
| First 500 kW | $12.12 |
| Over 500 kW | $11.81 |
| **Energy Charge ($/kWh)** | |
| First 100,000 kWh | $0.02717 |
| All other kWh | $0.02455 |

# Manufacturer V&M Star Seeks Reasonable Arrangement with Ohio Edison

V&M Star, a manufacturer of pipe and other tubular products for the oil and gas industry, petitioned PUCO to approve a 10-year "reasonable arrangement" between V&M and Ohio Edison (FirstEnergy), for an expansion of its current manufacturing operations in Northeast Ohio.

A successful expansion at the location is "probable" provided that V&M can secure a reliable supply of electricity pursuant to terms and conditions that will provide V&M with a "reasonable and predictable" price over a term that will allow V&M to make the estimated $835 million capital investment to expand and successfully operate in Northeast Ohio, V&M said.

Over the last several months, V&M has discussed its electricity needs with Ohio Edison, but has not come to an agreement, which V&M believes is due to ongoing uncertainties regarding Ohio Edison's source and pricing of generation supply. V&M's ability to move forward with a successful expansion in Northeast Ohio requires V&M to know the price and reliability of its electricity supply on or before March 2, 2009, it told PUCO.

Under the proposed reasonable arrangement, the rate design structure may include a monthly customer charge or minimum bill, but would not include any demand charges. The pricing would be structured to establish a fixed per-kWh price for a base level of kWh consumption of approximately 30 million kWh/month, with rates for amounts above that baseline based on an inclining block rate design with a "tail block" having the highest per-kWh price.

A successful expansion would bring an additional 250 to 300 direct jobs - many skilled - to an area of Ohio that would, "benefit greatly from this economic retention and expansion opportunity," V&M said.

V&M, a mercantile customer, argued that since its products are used to explore for and develop domestic natural gas supplies critical to Ohio's economy, including non-conventional sources of domestic natural gas, its plant qualifies as an "Energy Efficiency Production Facility" under proposed rules in Section 4901:1-38-01(E), Ohio Administrative Code.

"An adequate domestic supply of natural gas enhances the opportunity to effectively integrate intermittently available renewable energy production technologies into a least-cost, reliable and environmentally friendly resource plan," V&M said.

# Briefly:

**DPUC Opens Review of Rate Impact of Last Resort, Standard Service**

The Connecticut DPUC opened docket 09-02-03 for an uncontested proceeding to examine the efficacy and rate impact of Last Resort Service, and the efficacy and rate impact of Standard Service. Section 60 of Public Act 07-242 requires the examination, and calls for the Last Resort Service review to investigate the ability of Last Resort Service to meet the needs of C&I customers and the development of a competitive electric supply marketplace.

**PUCT Dismisses Texas Utility Solutions' Transmission Service Request**

The PUCT dismissed Texas Utility Solutions' request to direct CenterPoint to provide it with Wholesale Transmission Service, as the Commission agreed with Staff that Texas Utility Solutions is required to first pursue alternative dispute resolution with CenterPoint, which the QSE and competitive metering provider has since sought to initiate (36603, Matters, 1/29/09).

**Shell Closes Enspire Acquisition**

Shell Energy North America has closed on its previously announced acquisition of the assets of Mid-Atlantic gas marketer Enspire Energy (Matters, 12/29/08). The Enspire book includes C&I customers in Maryland, North Carolina, Pennsylvania, Virginia, Washington, D.C. and West Virginia. The acquisition was effective February 1, 2009 and includes hiring Enspire's employees.

**Pennsylvania OCA Says Allegheny Education Materials Don't Address Rate Cap End**

The Pennsylvania Office of Consumer Advocate questioned whether commercials and other educational materials developed by West Penn Power (Allegheny) meets the eight standards contained in its PUC approved customer education plan, intended to make customers informed about the end of rate caps and help customers make informed energy decisions. However, OCA said the "central message" of Allegheny's ads do not provide information on the impending end of rate caps or specific Allegheny low-income programs. The "highly generic" ads do not provide any new education for Allegheny's residential customers about the end of rate caps, what part of the bill will change, or when the change will occur, OCA noted. Due to the lack of specificity, OCA urged that such advertisement costs not be recovered in the new incremental surcharge for the customer education plans (M-2008-2032275).

**Direct Energy Offers Alberta Customers epost Payment Option**

Direct Energy has started offering Alberta customers electronic invoices from epost, Canada's largest bill presentment and payment network. Customers can sign up to receive their bills through the free epost service at either canadapost.ca/epost or the online banking sites of major Canadian financial institutions. Since epost, a service of Canada Post, was launched in 1999, more than five million Canadians have registered for the service.

**New England Governors to Lobby Feds on Energy Infrastructure**

The six New England governors have outlined a vision for a partnership with the federal government to help develop regional power resources and infrastructure that will support cost-effective, low-carbon and secure energy for the region. The governors agreed to work cooperatively to pursue regional investment, particularly in transmission and renewable energy development, and eyed the federal stimulus bill for funding. With the help of ISO New England, the governors said they would create a blueprint for developing regional energy resources and overcoming transmission barriers that will enhance the energy independence of the region.

**CenterPoint Selects eMeter System**

CenterPoint Energy has selected eMeter's EnergyIP meter data management system to support its rollout of 2 million advanced meters. eMeter's system will be used to capture 15 minute usage data provided by smart meters, route home area network commands, and facilitate faster service connections and switches. EnergyIP has been used in CenterPoint's initial advanced meter deployment.

### TURN Blasts Utility Demand Response Slush Fund

TURN called proposals from the three major California IOUs for $429 million over 2009-2011 for various demand response programs and activities targeting commercial and industrial customers a "slush fund," with 80% of the funding slated for utility administrative costs and for costs related to customer education, outreach and marketing programs (A. 08-06-001 et. al.). TURN recommended that the Commission significantly trim the budgets requested by the utilities by approximately $147 million to $282 million for administrative and program costs. "[M]uch of the funding requested by the utilities will simply provide a slush fund for activities that do little more than generate public relations benefits for the utilities," TURN said, noting that the utility budget forecasts requested for authorization in the proceedings do not include most of the incentives that would be paid to customers for actually reducing load, which are in separate dockets. Furthermore, TURN urged the Commission to order the utilities to focus on the transition to the California ISO's Market Redesign and Technology Upgrade, and not to spend excessive amounts of money educating customers and marketing programs that will likely be dramatically changed once demand response can bid into MRTU markets as proxy demand response or as fully dispatchable demand response.

### Comverge Wins Pepco/Delmarva Maryland Direct Load Control Contract

Pepco Holdings awarded Comverge a contract to implement a new direct load control system for customers at Pepco and Delmarva. Under the EmPower Maryland program, customers will receive bill credits for installing either an outdoor cycling switch or a programmable thermostat that allows the utility to control the home's central air conditioning system during critical peak energy use hours. Comverge will also assist with marketing and customer enrollment of the program targeting 200,000 customers across both utilities and 200 MW of peak savings.

## *Calpine ...* *from 1*

incorrect demand response allocations in a manner that resulted in 10.76 MW-months of Local RA deficiencies for 2008, the PUC said. The year-ahead local RA compliance filing requires LSEs to show qualifying capacity contracts in sufficient megawatt quantities to satisfy 100% of the local procurement obligation for each month of the next calendar year.

The penalty for failure to meet local procurement obligations is equal to 100% of the cost of new capacity. Calpine's penalty for the 10.76 MW-month deficiency calculated with the prescribed amount and multiplier would be $35,867.

However, since some of Calpine's deficiencies overlapped, the total penalties Calpine would be subject to would be $735,534, a reduction of about $4,000.