Energy Choice Matters

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Constellation NewEnergy Scaling Back Customer Supply Operations

Constellation NewEnergy will be scaling back its business, in an attempt to focus on higher-margin sales, its parent said during an earnings conference call yesterday.

The size of the NewEnergy book will be driven by factors such as Constellation-owned generation, physically contracted generation, maximum potential exposure and the cost of capital required to support such exposure. The focus on higher margin sales will likely produce a contraction in the business and a reduction in market share.

Retail power growth will be focused in markets where Constellation already owns or can contract for generation, which is expected to reduce the margin requirements in its business. NewEnergy also plans to exit low return markets such as Canada, but will increase scale in "attractive" retail gas and power markets, though none were cited.

The market environment has reduced competition in the markets where NewEnergy is focused, and NewEnergy has been able to adjust pricing and continue to write new business, CEO of parent Constellation Energy Group Mayo Shattuck said. Pricing now reflects increased cost of contingent capital.

Demand destruction has impacted NewEnergy, and the marketer is enforcing provisions (such as bandwidth clauses) in its retail contracts to minimize the impact of decreased usage. NewEnergy is also requiring deposits from new retail customers that do not meet pre-existing

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Marketers, Industrials Protest Rebundling of Lost Retail Access Revenue at Central Hudson

Marketers and large customers opposed a proposal by New York PSC Staff which would have the effect of rebundling lost revenues from retail access into base delivery rates at Central Hudson Gas & Electric, in briefs on Central Hudson's electric and gas rate cases (08-E-0887/0888).

Pursuant to Central Hudson’s existing gas rate plan, the utility recovers the commodity supply portion of forecast net lost revenues through the Merchant Function Charge supply charge, which is only paid by commodity sales service (bundled) customers. The delivery portion of forecast net lost revenues is recovered through the Transition Adjustment which is applicable to all delivery customers.

Staff proposed that lost revenues should be “rebundled,” with the commodity supply portion of lost revenues moved in to the Transition Adjustment, to be collected from all customers.

Adoption of the Staff proposal would increase the recovery of supply-related net lost revenues from ESCO gas customers in S.C. 1 and 12 by $150,000 and from customers in S.C. 2, 6 and 13 by $420,000. Furthermore, the MFC supply charge paid by utility sales customers would decrease by approximately 50% of the net lost supply revenues which would be moved to the Transition Adjustment.

On the electric side, Central Hudson's current rate plan recovers 50% the forecast lost

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FirstEnergy Ohio Utilities Set Second RFP for Interim Supplies

A second interim competitive bidding process is being planned for FirstEnergy's Ohio utilities to procure default service generation supplies for delivery from April 1, 2009, through August 31, 2009.

The utilities are currently engaged in discussions with stakeholders on a revised electric security plan, as directed by PUCO. A Staff proposal has been circulated among parties, but no formal pleadings have been made (Matters, 2/4/09). Should an agreement on an electric security plan be reached and approved by PUCO in a "timely" manner, FirstEnergy would cancel the RFP. As it stands, bids are due on March 12, 2009, and winning bidders will be notified the same day.

FirstEnergy conducted a similar solicitation in December for supplies for the first quarter of 2009, as it has no PUCO-approved electric security plan or market rate offer to serve standard service offer customers. In the earlier solicitation, affiliate FirstEnergy Solutions won 75% of the utilities' load (First in Matters, 1/9/09).

CRA International will manage the RFP process, which will again limit bidders to serving 75% of the utilities' non-shopping load.

As with the prior RFP, the FirstEnergy utilities will remain the Load Serving Entities and will be responsible for transmission and ancillary related costs incurred by the utilities under the Midwest ISO tariff.

The pay-as-bid RFP will generally be structured as the December solicitation, and will procure tranches of load-following energy and capacity. Standard Service Offer Load will be divided into 100 identical tranches, each representing 1% of the actual hourly energy required for the Standard Service Offer Load for the Delivery Period, as well as 1% of the actual monthly required Designated Network Resources for the Delivery Period.

Hedging Summer Storage Injections Would Raise Costs, BGE Says

Hedging 2009 summer storage injections to reflect current gas futures prices is not in the best interest of sales customers and would likely increase their costs, Baltimore Gas and Electric said in response to a show cause order from the PSC directing LDCs to justify not hedging storage injections now (Case 9174, Matters, 2/2/09).

The use of financial hedges as suggested by PSC Staff would not only be costly to consumers, BGE argued, but it would also be extremely problematic for BGE to implement during the current global economic and credit crisis.

For example, capping the price of 40% of BGE’s expected storage injections for this summer (excluding storage gas already covered by an asset management agreement) at $6.50 would result in a sunk cost of approximately $2 million. Hedging could also result in significant margin postings and could also increase BGE’s collateral requirements at a time when access to capital is severely constrained, the LDC said.

Fixing the price of 40% of BGE’s storage injections over the last three years at the March Summer Strip price would have resulted in costs $11.4 million higher than if BGE had simply paid the monthly NYMEX closing prices over the summer injection seasons, BGE reported. Since BGE has been able to purchase storage gas at well below the NYMEX closing prices, the overall economic premium to customers is significantly understated in the comparison.

"Attempts at 'timing the market' do not lead to sustainable cost savings," BGE contended. Had BGE fixed prices for 40% of its expected storage injections for this summer (excluding storage gas already covered by an asset management agreement) at the 2009 NYMEX Summer Strip price on December 15, 2008, when Staff issued the data request that led to show cause order, BGE would have paid $7 million more than if prices had been fixed just six weeks later.

BGE’s experience with fixed-price winter contracts has also not produced benefits for customers. Over the past eight winters, BGE's fixed price contracts for flowing winter gas have cost about $20 million more than if the gas had been bought at market prices during the winter periods, BGE said.

Columbia Gas of Maryland responded that hedging summer storage injections now would not be unreasonable, but stressed that there are many reasonable approaches to hedging and procurement. Hedging would not guarantee lower winter prices versus what may otherwise be charged, Columbia said.

Washington Gas Light, which has sought to expand its current hedging program to buy supplies up to three years ahead of delivery, welcomed greater flexibility in hedging from the PSC, but does not agree that an order to lock-in lower prices today would be the best approach to acquire storage volumes. Such an approach would eliminate the ability to capture further downside movement in prices, as WGL suggested giving LDCs a variety of flexible tools and financial instruments to hedge.

Market Test Flight Required if "Expedited" Switch Does Not Replace On-Cycle Switches, ERCOT Says

A market test flight may be required if changes to expedite customer switches in ERCOT results in three types of switches, ERCOT told market participants ahead of a workshop today (Matters, 1/27/09).

A PUCT draft would create an "expedited" meter read so that switches occur within seven days. The expedited read would be separate from an out-of-cycle read, which would still remain as a tariffed service.

ERCOT believes the proposed expedited meter read would replace the current on-cycle process. If so, ERCOT reported only minor system changes are needed, and no TX SET changes would be required.

However, if the proposal results in three types of switches -- on-cycle, expedited, and off-cycle -- a TX SET change would be required to accommodate the expedited switch transaction. ERCOT believes if there are three switch types that it may have to make "major" system changes, and facilitate a flight test with the market prior to implementation.

NYISO-PJM Congestion Agreement Would Not Solve Lake Erie Loop Flows, NYISO Says

The New York ISO was not prepared to recommend a solution to Lake Erie Loop Flow problems experienced in early 2008 in a 90-day status report filed at FERC, but said a currently proposed coordinated congestion management process between NYISO and PJM would not solve the Lake Erie Loop Flow problems.

The PJM-NYISO congestion management proposal currently in negotiations is limited to redispatching internal New York Control Area generation or PJM Control Area generation to address power flows affecting transmission constraints in the neighboring Control Area, NYISO said. While redispatching New York generation can, under some circumstances, relieve transmission congestion in PJM's Control Area (or vice-versa), the scope of relief that is provided under PJM's congestion management proposal would be limited to relieving congestion on specified transmission facilities.

The congestion management proposal is neither designed nor intended to address unscheduled power flows that result from interregional transaction scheduling around Lake Erie, NYISO reported, although other market efficiencies may be attained from such a congestion management agreement.

PJM had previously suggested that the agreement could serve as a "comprehensive solution" to address unscheduled circulating power flows around Lake Erie.

Briefly:

Vectren Source Quarterly Earnings Flat

Fourth-quarter earnings at marketer Vectren Source were flat at $1.7 million, while yearly earnings rose to $1.9 million from $1.2 million a year ago on a $500,00 gain from the sale of Vectren Source's Georgia customer base. Vectren Source's customer count at December 31, 2008, was approximately 170,000 customers, including nearly 40,000 equivalent customers Vectren Source is serving at wholesale at its affiliated Ohio utility after winning load in the Standard Service Offer auction. Customer count at the end of 2007 was approximately 161,000. Vectren Corporation reported 2008 net income of $129.0 million, down from $143.1 million in 2007.

BlueStar Seeks Single Billing Authority at Ameren

BlueStar Energy Services applied at the Illinois Commerce Commission to amend its license so it can provide single billing authority (supplier consolidated billing) in the Ameren territories.

National Utility Service Gets Ohio Broker License

PUCO granted National Utility Service, d/b/a NUS Consulting Group, an electric broker-aggregator license. NUS intends to serve medium and large C&Is (Matters, 1/17/09).

PUCT Opens Docket for Entergy Competitive Generation Services Tariff

The PUCT has opened docket 36713 to consider approval of a Competitive Generation Services Tariff for Entergy Texas.

One Source Power Receives Texas Aggregator License

The PUCT awarded One Source Power Group an aggregators certificate. Principal Gary Patterson has held various business development and sales positions at First Choice Power (Matters, 1/15/09).

PUCT Staff Oppose ERCOT Proposal for Authority to Accept CREZ Facility Changes

PUCT Staff raised concerns about an ERCOT proposal that would authorize ERCOT to accept modifications to Competitive Renewable Energy Zone (CREZ) facilities proposed by transmission providers, and that would consider such modifications compliant with the PUCT's final order (35665). Such authorization may be overly broad, Staff cautioned, and would effectively delegate the power to make modifications to the CREZ facilities determined by the Commission in Docket No. 33672, without seeking approval or review of such modifications from the Commission. Such ERCOT authority is not granted by PURA, Staff said.

Dominion Resources Wants Timeline for Resolving Congestion in PJM West-East Flows

Dominion Resources, while supporting a PJM-Midwest ISO proposal addressing cross-border cost allocation for economic transmission projects that benefit both RTOs, urged that the RTOs quickly address operational performance issues associated with increased west-to-east power flows from the Commonwealth Edison zone to the PJM East zone. Such operational issues were first raised in Northern Indiana Public Service Company’s May 2005 complaint against the RTOs. PJM and MISO said that the NIPSCO issues should be resolved in a separate filing, to which Dominion does not object, but Dominion does want a firm timeframe for addressing the problems. It urged that PJM and MISO make requisite FERC filings regarding an operational fix within 90 days, although the RTOs are already planning to submit such a filing by the end of March. The operating procedures that have been implemented to relieve congestion on the NIPSCO system in lieu of a transmission upgrade fix have resulted in negative locational marginal prices in many off-peak hours in the ComEd Zone, which has reduced the value of the output from Dominion's State Line generating facility near the Illinois-Indiana border.

Advantage IQ Net Income Falls on Reduced Ownership

Net income to Avista Corp. from energy consultant and customer billing service provider Advantage IQ fell in the fourth quarter due to Avista's reduced ownership in the business, as a result of the previous acquisition of Cadence Network which gave Cadence's owners a 25% stake. Advantage IQ posted earnings of $1.4 million for the fourth quarter, down slightly from $1.7 million a year ago. Yearly income fell to $6.1 million from $6.7 million a year ago. The addition of Cadence Network added $2.1 billion in energy dollars managed for 2008, Avista said. Advantage IQ projected slower growth due to the economy, as it has seen clients, particularly among its customers in retail sales, close stores or liquidate, such as Circuit City and Linens N Things. Avista still plans to monetize at least a portion of its investment in Advantage IQ during the next two to four years, either through an initial public offering or sale of the business.

Consumers Energy Files Renewable, Efficiency Plans

Consumers Energy filed with the Michigan PSC a proposed renewable energy plan and energy optimization plan, required by recent legislation (U-15805/U-15889). Costs of the $1.8 billion renewable energy plan, which calls for 900 MW of renewable generation (half to be sourced from IPPs), would be paid by bundled customers only. The $508 million energy optimization plan, which includes efficiency measures and incentives, would be paid by all customers, except those implementing self-directed efficiency plans. Consumers proposed a decoupling mechanism as part of the optimization plan.

Pepco Settlement on Panda PPA Would Credit $39 Million to Maryland Customers

Pepco would distribute a one-time credit totaling $39 million to Maryland customers relating to the end of its obligation to purchase above-market power from the Panda-Brandywine PPA, under a settlement filed by the utility, Maryland PSC Staff and the Office of People's Counsel (Case 8796, Matters, 11/18/08). Also under the pact, Pepco would be allowed to retain the Excess Deferred Income Tax (EDIT) and Accumulated Deferred Income Tax Credit (ADITC) reserves associated with its divested generating assets, and none of those amounts would be available for sharing with Pepco’s Maryland customers.

Constellation ***... from 1:***

credit conditions, an action once generally confined to mass market sales.

As-priced retail power gross margin in the fourth quarter was about $8.75/MWh, with the retention rate falling to about 70%. As-priced retail gas gross margin in the fourth quarter was about 23¢/Dth, with a retention rate just above 85%.

Constellation's commodities group is being "repurposed" to mostly provide risk management and support for Constellation's generation and customer supply units, by hedging the generation fleet and originating and securing contractual power for retail and wholesale customer supply business. Constellation's commodities unit will "selectively" deploy risk capital in attempts to earn superior risk-adjusted returns.

Constellation cited the global credit crisis and access to liquidity as its top risk going forward. As of December 31, 2008, Constellation's net collateral postings were approximately $4.5 billion. As of December 31, the largest user of collateral was the customer supply business, reflecting the dramatic decline in power prices in the fourth quarter. Through previously announced divestitures, reduced scale of the customer supply unit, and other actions, Constellation expects total collateral use to decline to approximately $2.8 billion across generation, customer supply and commodities by year end.

Merchant operations at Constellation, reflecting consolidated results from generation, commodities, and customer supply, produced an adjusted loss of $39 million for the fourth quarter. The loss was primarily due to unfavorable portfolio management and trading results, and unfavorable earnings in customer supply, reflecting lower retail power margins. These negative factors mitigated favorable gross margin from generation from the roll-off of below-market hedges

Constellation Energy Group reported a GAAP loss of $1.41 billion for the fourth quarter, versus earnings of $258 million a year ago, mainly on charges due to its cancelled merger with MidAmerican Energy Holdings.

Central Hudson ... from 1:

revenues by adding a separate component to the MFC Supply Charge which is applicable only to utility sales customers, with the remaining 50% recovered through the MFC Transition Adjustment applicable to all delivery customers. Staff proposed that the entire forecast of net lost revenues be included in base delivery rates either through the revenue decoupling mechanism (RDM) or through implementation of a Retail Access Reconciliation Adjustment.

Staff's electric and gas lost revenue proposals, "would reduce the level of cost avoided by customer[s] migrating to retail access service and thus reduce the competitive benefits associated with competitive retail supply service," the Small Customer Marketer Coalition said.

Both SCMC and Multiple Intervenors contended that Staff's proposal is inconsistent with prior Commission orders, which found that it was unreasonable to charge retail access customers for avoidable utility costs, even if those costs are only avoidable in the long-run. As Central Hudson will avoid some costs in the long-run by not serving migrated customers, supply-related lost revenues should not be recovered from shoppers, SCMC and MI said.

Staff noted that the PSC's 2004 unbundling policy statement (00-M-0504) requires all customers to pay costs to support the utility's POLR obligation, and contended that it is difficult to distinguish the amount of costs attributable to the POLR function from avoidable costs. The current 50-50 split was adopted out of convenience and not a cost analysis, Staff said, further arguing that all lost revenue is associated with the POLR obligation and thus should only be recovered through delivery rates.

Staff also recommended setting funding for Central Hudson's Competition Education Campaign Fund at zero in the new rate plan, though Staff suggested using previously collected but unspent funds to implement Staff supported educational activities relating to retail access. Staff favored using $107,000 in deferred funds to implement three programs: an E-bid System ($75,000), enhanced mailing functions ($12,000) and web site enhancements ($20,000) regarding retail access. The E-bid System is a successor to the Market Match program, with enhanced features, which allows customers to receive ESCO quotes via Central Hudson's website. The program is more educational than promotional and thus ratepayer funding is appropriate, Staff said.

According to SCMC, the deferred balance of the Competition Education Campaign Fund stands at $635,000, of which Staff would only use a portion. SCMC recommended that another $170,000 be used to modify the existing ESCO Referral program to allow new service customers to enroll in the program at service initiation.

Staff opposed ratepayer funding for Market Expos, Market Fairs, customer choice awareness surveys, and general promotional materials, given the PSC's order that ESCOs should pay for promotional activities for retail access.