Energy Choice Matters

March 5, 2009

NYSEG Says Expansion of MHP Beyond 300 kW Should be Deferred Until Benefits Clear

NYSEG does not recommend expanding mandatory hourly pricing to customers with demands below 300 kW, as it is not clear that the benefits derived from hourly pricing are more than the costs for smaller customers, NYSEG said in a report on the Mandatory Hourly Pricing (MHP) program.

The analysis focused on expansion of hourly pricing to customers above 1 MW, the first phase of NYSEG's MHP expansion. Customers with demands of 500 kW or greater moved to MHP in 2008; those with demands of 400 kW or greater will move to MHP in 2009; and those with demands of 300 kW or greater will move to MHP in 2010.

NYSEG said it is too early in the program to determine whether the MHP program has impacted NYSEG's electricity demand profile, although the results so far indicate MHP customers have not changed their usage. NYSEG noted most customers in the class are with ESCOs and thus not fully exposed to hourly pricing. "It is not clear if customers choose to purchase their supply from ESCOs to avoid NYSEG's hourly pricing or for other reasons," NYSEG said.

NYSEG recommended continuing to settle with ESCOs on an hourly basis, to help facilitate the potential that ESCO customers may see hourly pricing.

During the period of the study, NYSEG had 31 MHP customers purchasing supply from NYSEG, of which 27 responded to a survey on their experience. Only one-quarter of customers responding felt they had the necessary information to develop a strategy for responding to hourly

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N.Y. Working Group Mulls 18-a Assessment on Delivery Revenue Only

Changing the current Section 18-a assessment in New York so that it only applies to distribution revenues would be the easiest solution to reforming the assessment process, ESCOs said during a working group, but the proposal does face the challenge of making up a revenue shortfall compared to the current process. The working group was focused on potential changes to the assessment process regardless of the fate of legislation which may impose the fee on ESCO sales.

Currently, utility commodity and distribution revenues are assessed a one-third of one percent assessment to run the PSC. ESCO sales are currently not subject to the assessment.

Assessing the fee only on distribution rates would provide more stable revenue, since delivery rates are relatively stable, compared to volatile commodity prices. The mechanism would also be competitively neutral, and less burdensome from a collection and auditing standpoint.

However, to maintain the current level of revenues from the assessment, if it were only applied to distribution revenues, the assessment percent would have to be increased from the current one-third of one percent, to make up for losing the assessment on commodity revenues.

While some stakeholders saw no problem in raising the percent, others noted increasing the percent would require a legislative change, opening the door for any number of changes to the

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National Grid Says ESCO Referral for New Service Customers Would Cost $1 Million

Expanding ESCO Referral Programs to include new service initiation customers would roughly cost just under $1 million for all three National Grid New York distribution companies, Grid said in comments to a working group.

System implementation costs under Grid's rough estimate would be $310,000 at KeySpan New York, $210,000 at KeySpan Long Island, and less than $100,000 at Niagara Mohawk. Training costs would be $20,000 at each utility, and ongoing costs would be $100,000 at each.

For its estimates, Grid assumed that enrollment at service initiation would be based on interaction with the customer during the initiation process and not initiated by the ESCO. Furthermore, enrollment eligibility would be for only those customers who are not already with an ESCO and changing premise location.

For the KeySpan LDCs, Grid noted account initiation means meter set/unlock situations only, and does not include a totally new service from the street.

Grid suggested that EDI enrollment notification to the ESCO would not be sent while the account is in a pending status, because of several issues that would need to be resolved. Although Grid will likely know the new account numbers, the numbers won't actually be set up yet, and data storage problems could arise if the account number does change. The date of a customer's initiation order could also change, or initiation could be cancelled, creating problems if the ESCO was already told of enrollment.

PJM Files to Cap PLC Add-Back for Certain Load Resources

PJM submitted tariff changes at FERC meant to remove a barrier to greater load reductions during emergencies by changing its "add-back" provisions used to calculate peak demand, so that demand resources are not penalized for over-performing during emergencies.

Currently, under PJM's Emergency Load Response Program, actual reductions of load are added back for the purposes of peak load calculations for capacity. However, for resources registered as a Capacity Only Resource or Full Option Resource, their actual load reduction during events may be greater than the megawatt reduction the resource has committed to. In such cases, the add-back will raise their peak load contribution above the amount of capacity eligible for a capacity payment, and, in effect, penalize such resources for over-performing during emergencies.

To correct this problem, PJM proposed capping the peak load add-back for Capacity Only Resources and Full Option Resources at the level of capacity reduction they have committed to during program registration. Energy Only Option Resources will still have their full, actual load reductions added back to their peak load contribution since reductions by such resources are voluntary, and they do not receive a capacity payment.

PJM also proposed to limit add-backs to reductions occurring in the months of June through September, and to relieve curtailment service providers and end users of the add-back reporting obligation, which will be assumed by PJM.

PJM believes the changes will remove barriers to demand response participation and encourage more entities to register.

PUCO Asks if RTOs Supporting Long-Term Contracts

PUCO opened its investigation of RTO participation by asking for stakeholder input on several questions, including whether RTOs are effective in facilitating long-term contracts (Matters, 3/3/09).

PUCO encouraged stakeholders to provide practical or cost-effective alternatives for any RTO policies criticized. Comments are due May 4.

Among the questions is whether RTO policies and practices are effective in facilitating long-term contracts between load serving entities and generation developers or suppliers that may be needed to support the construction of additional baseload generation facilities. PUCO further asked if the RTOs' resource adequacy constructs are effective in promoting needed resource investment and long-term contracts which could help finance investment.

Are such resource adequacy requirements and the resulting capacity markets reasonable and providing benefits to Ohio's consumers, PUCO asked?

PUCO also asked if locational marginal pricing policies provide value to Ohio's consumers, and whether market monitoring and mitigation are effective.

The Commission sought comments on whether it would be reasonable, cost effective, and viable for PUCO to pursue the construct of an Ohio-only RTO.

Peevey Says All SCE Customers Should Have Dynamic Pricing Options

Believing that dynamic pricing options should be made available to all customers, California PUC President Michael Peevey solicited stakeholder comment on Southern California Edison's proposal to establish dynamic pricing for only certain non-residential customer classes, in an assigned Commissioner's ruling (A. 08-03-002).

In its rate application, SCE has submitted settlement agreements for the large commercial and industrial customer rate group, and the agricultural and pumping customer rate group, which contain critical peak pricing and real time pricing options.

While Peevey applauded SCE's movement to provide dynamic pricing tariff options for these customer groups, he noted some SCE customers will have limited dynamic pricing options. Consistent with the Commission's previously stated objectives, Peevey said that a plan should be established to ensure that SCE has dynamic pricing proposals for all customer classes when it files its 2012 General Rate Case Phase 2 Application.

Peevey asked for stakeholder comment on the timing for SCE to develop and integrate dynamic pricing tariffs into its rate design for all customers, and asked whether guidance provided to Pacific Gas and Electric should be followed at SCE.

Staff, OPC Question Timing of Allegheny Warrior Run Reactive Power Tariff

Allegheny Power should not be penalized for not collecting explicit ancillary service revenues from the Warrior Run plant under an RFP in effect from 2005-07, but the Maryland PSC should hold a hearing to determine whether Allegheny should be penalized for not acting more quickly to file a tariff at FERC to sell reactive power from the plant in the PJM market, PSC Staff and the Office of People's Counsel said in separate briefs (Case 8797).

At issue are revenues from ancillary services from the plant, which has imposed above-market costs on Allegheny customers due to a long-term PPA. During a 2004 RFP for output from the plant, Allegheny, at the behest of Staff and other settling parties in its restructuring docket, removed explicit mention of the sale of ancillary services in the PPA, because it was unclear whether Allegheny was entitled to sell such ancillary services from the plant, and parties wanted to avoid any legal challenge. While the PSC asked whether removing this mention of ancillary services deprived customers of maximized revenue under the restructuring settlement, Staff and OPC agreed that since Allegheny removed the ancillary service language with Commission approval at the request of Staff and OPC, it would be unfair to Allegheny to penalize it for such actions. Furthermore, it's unclear if such actions actually resulted in lost revenue, since prior parties had not sought to sell the Warrior Run ancillaries despite their inclusion in previous PPAs.

However, Staff and OPC were more critical of Allegheny's actions with respect to treatment of ancillaries once Allegheny received permission to end sales of the Warrior Run output via PPAs and instead sell its output in the PJM market. Allegheny filed a FERC tariff for reactive power revenue from

Warrior Run in May 2008, but the PSC has questioned why the filing was not made so that revenue collection would start January 1, 2008, the first instance at which Allegheny could sell such ancillary services in the market. Allegheny has said the complex nature of the FERC filing resulted in the delay.

Staff noted the delay could simply be the result of an innocent oversight, but potentially also could have benefited Allegheny affiliates. Staff suggested a hearing before any action on the question. OPC argued that absent a showing from Allegheny justifying the delay, Allegheny should provide a credit to customers in the amount of the lost reactive power revenue for the first half of 2008.

Briefly:

PUC Approves FirstEnergy Rates for April and May

PUCO approved part of a stipulation regarding the FirstEnergy utilities' electric security plan, which sets generation rates for the period of April and May 2009. FirstEnergy Solutions will provide Standard Service Offer supplies for the period, at a price of $66.68/MWh, adjusted for distribution line losses using a 4.78% overall average loss factor. The price represents the average wholesale rate of the power procured for the period January through March. Deferral of purchased power costs will continue during April and May at Cleveland Electric Illuminating, to be recovered over 10 years starting in June 2011 on a nonbypassable basis. The interim ESP also includes mitigation of rates for domestic automakers, and makes interruptible rates available for large users on a basis similar to the interruptible program prior to recent changes imposed by the utilities. Under the approved part of the stipulation, the interim procurement for the first quarter of 2009 will not be considered imprudent, and FirstEnergy will cancel a scheduled RFP to obtain supplies starting in April. The order did not address provisions of the ESP for supply past May 31, 2009, which include using a competitive bidding process to obtain supplies.

ERCOT Says Five QSEs Failed to Submit Financials

QSEs Clearview Electric Inc., Electric Now LP, Louis Dreyfus Energy Service LP, Steam Gas and Electric LTD, and Urban Energy Source LLC have failed to comply with ERCOT Protocol Section 16.2.8, which requires QSEs to provide quarterly unaudited financial statements and annual audited financial statements, ERCOT claimed in a PUCT filing. Each of the five QSEs has not submitted the requisite financial data for the third quarter of 2008, ERCOT said. ERCOT said its submission is intended as an informational filing, but noted violation of the Protocols amounts to a violation of PURA. While ERCOT is not seeking relief at this time, ERCOT intends to file a list of QSEs who have failed to comply with Section 16.2.8 of the ERCOT Protocols quarterly, and said future relief may be sought.

RG&E POR Write-Offs Lower than Discount

For both electric and gas service at Rochester Gas and Electric, the actual uncollectible write-offs in 2008 for ESCO customers participating in the Purchase of Receivables program were less than the amount of the discounts applied to the purchase of the receivables, RG&E said in a report to the New York PSC. Consistent with the joint proposal establishing the POR programs, the excess electric amount of $97,089 collected will be added to the Asset Sale Gain Account (ASGA), while the excess of $628,884 in gas collections will be deferred for future gas customer benefit. Twenty electric ESCOs and fifteen gas ESCOs were participating in the POR program at December 2008, RG&E said. During the year, RG&E paid $171,883,406 for $173,891,223 of book receivables, resulting in a calendar year total POR discount of $2,007,817. The 2008 electric POR discount was set at 0.73% while actual write-offs of purchased receivables was 0.63%. The gas discount had been set at 1.75%, while actual write-offs of purchased receivables was 0.88%.

Insight Energy Advisors Seeks Texas Aggregator Certificate

Start-up Insight Energy Advisors applied for an aggregator certificate at the PUCT. It plans to focus initially on C&I customers, but applied to aggregate all classes, with hopes of expanding service in the future.

PUCT Grants REP Certificates to Six Energy Services Group Subsidiaries

The PUCT granted REP certificates to six Energy Services Group affiliates, TexRep5 through TexRep10 (Matters, 3/2/09).

D.C. PSC Orders Pepco to Develop Load Reduction Programs Independent of AMI

The District of Columbia PSC ordered Pepco to file a demand response service program plan that is not dependent on advanced metering within 30 days (FC 1070). The PSC noted Pepco has filed demand response programs in Maryland that do not require smart meters, such as a cycling program for air conditioners and heat pumps. It directed Pepco to develop such a cycling program for the District, in addition to other programs not dependent on advanced metering.

PUCO Approves V&M Star Reasonable Arrangement

PUCO approved a 10-year reasonable arrangement between pipe manufacturer V&M Star and Ohio Edison. Under the arrangement, 100% of the delta revenue related to V&M's below-market generation supply from Ohio Edison will be paid by ratepayers on a nonbypassable basis. PUCO said that each reasonable arrangement application will consider delta revenue recovery on its own merits. Pricing under the reasonable arrangement is confidential.

ERCOT Proposes Two CRE Additions

ERCOT proposed to add the Peters-Flewellen 138kV and Hockley-Tomball 138kV lines as North to Houston Closely Related Elements (CREs). The new CREs would be used during occasions when any of the double circuits feeding into the Houston area from the north are unavailable, and would assist ERCOT in setting North to Houston Commercially Significant Constraint (CSC) limits during the Singleton substation cut in. The Technical Advisory Committee has seven days to take action on the proposed additions; the additions are automatically accepted if TAC fails to take action in that timeframe.

ERCOT AS Market Engine Fails to Clear

ERCOT reported that on March 4, the Day Ahead Ancillary Service Market Engine initially failed to clear for the Operating Day of March 5, 2009. At approximately 4:20 p.m. the Day Ahead Ancillary Service Market was re-run and successfully cleared. ERCOT is investigating the issue.

Md. PSC Accepts Relinquishment of Reliant License

The Maryland PSC granted Reliant Energy Solutions East's request to relinquish its electric supply license, effective June 1, 2009.

NYSEG MHP *... from 1:*

prices. All of the interviewed customers said that they face barriers to responding to hourly pricing, including insufficient resources to monitor pricing, inflexible labor schedules, and high costs relative to benefits of responding to prices.

All of the interviewed customers said that hourly pricing has not caused them to shift load. However, similar to the findings at NiMo (Matters, 3/4/09), customers who have taken (or plan to take) action in response to hourly pricing largely focused on energy efficiency, energy audits, and NYSERDA programs.

"The fact that customers monitor and manage their electricity use but do not monitor the day-ahead prices, suggests that they are interested in using energy efficiently but either do not have the ability to react on an hourly basis or the prices are not at a point where reacting on an hourly basis is cost effective," NYSEG concluded.

As an upstate service area, NYSEG reported that most of its customers are not seeing extremely high prices, and reported that in 2007, the peak prices were in December and not the summer, again mirroring results at NiMo.

The lack of extremely high prices reduces the incentive for customers to react to hourly prices, NYSEG noted. NYSEG recommended continuing to require customers to be billed for supply on an hourly basis, as maintaining hourly pricing will allow customers to become comfortable with the pricing mechanism before they actually see any negative impacts. NYSEG also favored keeping the current schedule of expanding MHP to 300 kW customers, with no immediate expansion below that level.

"To the extent larger companies find ways to use hourly pricing to their advantage over time, smaller companies will benefit from the lessons learned from the larger companies. However, more experience is needed with the larger customers before any benefits could be passed on to the smaller customers," NYSEG said.

NYSEG incurred approximately $15,000 in customer outreach and enhancements to its interval metering data management system to implement the first phase of the MHP program. Additionally, the cost of an interval meter is about $400 greater than a standard time-of use meter. In addition to these costs, customers that do not have telecommunications in place as required by the tariff are charged approximately $85 per meter read.

18-a ***... from 1:***

process.

An alternative that would avoid changing the current percent level of the assessment would be to continue to assess the revenue on commodity costs, but create a proxy for revenue from competitive commodity sales, by establishing an average commodity rate. These proxy ESCO commodity costs, as well as utility commodity costs, would both be collected through distribution rates to ensure competitive neutrality.

Utilities did not express opposition to either scenario, so long as the charge in the distribution rates was fully recoverable by the utility, and the utility was not burdened with calculating the estimate of the proxy for ESCO commodity costs.