Energy Choice Matters

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Pepco Energy Services Retention Rate Drops to 10%

Pepco Energy Services' retention rate for its commodity supply customers has fallen to 10% for the 2009 year-to-date period, executives disclosed during an investor conference Friday.

That rate compares to a 39% retention rate in the fourth quarter of 2008, and historical rates of 60-70%. Executives attributed the significant churn to its previously discussed retail pricing decision to include higher costs of capital in retail rates (Matters, 3/4/09).

Although parent Pepco Holdings, Inc. continues its strategic evaluation of the commodity supply portion of Pepco Energy Services, the bottom line is that the unit doesn't line up with PHI's focus on investing capital in its transmission and distribution business, new PHI CEO Joseph Rigby said. Even though Pepco Energy Services has done all the right things to limit its collateral requirements and put the issue "in a box," PHI wants to "de-risk" its business, Rigby added.

PHI continues to review options for the commodity supply unit, but said Pepco Energy Services will move forward with a shift to the energy services side of the business, which doesn't impose large capital requirements on the parent.

Even as Pepco Energy Services unwinds its commodity supply business, its CEO John Huffman said gross margins are still expected to be $3/MWh for electricity and 30¢/Dth for gas during the process.

Pepco Energy Services' current collateral postings are $563 million, of which $205 million is not affected by changes in commodity prices. The unit expects $293 million to roll-off in 2009, with an additional $145 million rolling off in 2010.

Pa. Draft POR Rules Remove Limitation Requiring Utility Consolidated Billing

Pennsylvania's proposed rules for voluntary Purchase of Receivables programs for natural gas local distribution companies remove a previous guideline that limited suppliers participating in the POR programs to using only utility consolidated billing services.

The proposed POR rules, posted Friday after being voted on at the PUC's Thursday meeting (Matters, 3/27/09), depart from the interim guidelines issued in December, which would have imposed a requirement that participating suppliers only use utility consolidated billing.

"By forcing [suppliers] to use the utility's billing system we forbid them to build other non-supply value added services into the billing program. This could have the effect of stifling innovative products such as demand response, efficiency or green products," the PUC said in its order on the draft rules.

"Moreover, we are not convinced that more advanced supply products can be billed through existing [LDC] billing systems," the Commission added, expressing concern that innovative supply products could be stifled by the restriction contained in the interim guidelines.

As under the interim guidelines, the draft rules do not require suppliers to place all of their customers on POR in order to participate. POR programs may include only receivables of

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U.S. Energy Savings Seeks Pa. License for Duquesne Area

U.S. Energy Savings is seeking to serve Pennsylvania customers in the Duquesne Light territory.

Specifically, its Pennsylvania Energy Savings Corp. subsidiary submitted an electric generation supplier license application as a broker/marketer, to serve residential and commercial customers.

As in most of its other markets, U.S. Energy Savings said it would offer a five-year product to Pennsylvania customers, with a renewable component optional.

Pennsylvania Energy Savings said it will offer customers an extended no-fee cancellation period of 30 days after enrollment, beyond the standard rescission period. It will also verify all sales by third-party verification, or follow-up written confirmation mailer.

U.S. Energy Savings estimated that it would start marketing to Pennsylvania customers around August 1, 2009.

Anderson to Pursue Separate Proceeding on PUCT's Authority Over REP Transfers

PUCT Commissioner Kenneth Anderson intends to open a separate project this summer after the legislative session to address the question of whether REPs need prior Commission approval for a change in control or transfer of a REP certificate, Anderson said in discussing the latest draft REP certification rules (Matters, 3/26/09).

The Commission did not take action on the latest draft at its open meeting, but expects to adopt final rules at its April 9 session.

Meanwhile, Anderson said a new draft will be issued, which reverts provisions regarding the transfer of a REP certificate to the current rule's language stating a REP "may" seek prior approval from the Commission for such transfers, but does not require any such application. The previous draft had replaced "may" with "shall," requiring REPs to seek prior approval of any material change, including a change in control, or transfer of control of a REP certificate.

Chairman Barry Smitherman does not believe PURA gives the Commission authority over such transfers, but Anderson argued PURA does give the Commission authority over changes in control of a REP, and added that, absent a rule, REPs cannot transfer a certificate via an asset sale.

Anderson intends to draft a strawman this summer regarding the current uncertainty surrounding changes in control. The project will also address questions such as, under changes of control or transfers after the effective date of the new certification rules, whether the new entity will be required to meet the new $1 million equity standard in the rule if the REP is not investment grade.

Conn. Utilities Balk at Supplier Suggestions on Billing

Competitive electric suppliers already enjoy options not available to electric utilities in billing, United Illuminating said in reply comments countering Dominion Retail's recommendation that suppliers be given "billing parity."

In a docket on the utility-supplier billing relationship (Matters, 2/24/09), UI argued that utilities are limited to using one rate per class, while suppliers can theoretically submit an unlimited number of rates per class, and could, in fact, submit a unique rate for each customer served. Suppliers have submitted over 1,000 rates to UI, the utility reported.

UI strongly endorsed giving all customers the option of "direct billing" (dual billing), which is currently limited to customers with demands of 50 kW or more. UI said direct billing would allow suppliers to offer any customized rates they desire, while precluding the need to implement rate ready utility consolidated billing.

If the DPUC does desire to address billing parity, UI recommended that a limit be imposed on the number of rates suppliers can submit to a utility within a specified time period, to reduce the utility's burden and expense.

Connecticut Light and Power also objected to Dominion Retail's interim solution regarding the lack of proration for price changes in custom rates. Under CL&P's new C2 backoffice system, only customers on non-custom rates have their bills prorated to reflect any supplier pricing changes during the billing period. Customers on custom rates must have any proration performed manually by the supplier, as the custom rate is not held in the C2 rate tables. Dominion Retail wants CL&P to develop proration for custom rates and suggested, in the interim, that CL&P offer suppliers 100 non-custom rates to allow suppliers to receive proration for specialized rates.

However, CL&P argued that the lack of proration for custom rates was a tradeoff in developing a system that allows suppliers to quickly enroll customers on custom rates. The custom rate process allows unlimited rates, and does not require the rate to be pre-filed with CL&P before enrollment, allowing for much faster enrollment. However, as a result, the rate is not stored in the C2 rate tables, and is instead stored at the account level, meaning it cannot be prorated.

In contrast, non-custom rates, used for large mass marketing efforts, are entered into the C2 rate table which allows for their proration, but also requires about one full working day to process, as the rate must be individually entered by a programmer. Such processing requires an expense currently not borne by suppliers, CL&P said.

Responding to various suggestions from suppliers, CL&P said such matters were better addressed in the Electronic Business Transaction working group, but reported little or inconsistent supplier participation in the group.

Dominion Retail provided the Department with more data on problems faced by suppliers in processing bills. Since Connecticut Light and Power moved to the new C2 billing system, the utility, "regularly submits transactions that are incomplete or inaccurate," Dominion Retail reported.

Among the problems Dominion Retail listed are transactions received from CL&P that do not have CL&P billing account numbers or service account numbers, which prevents proper processing by suppliers.

Furthermore, Dominion Retail said CL&P unilaterally changed the activity code associated with the cancellation of accounts in a manner that does not conform to the EBT standards, but failed to make suppliers aware of the change.

Dominion Virginia Power Receives Approval for Bear Garden Plant

As expected by Dominion Virginia Power, the Virginia State Corporation Commission dismissed conclusions made in a hearing examiner's report, and approved Virginia Power's application to build the 580-MW Bear Garden generation station in Buckingham County, Va.

Shell Energy had protested that a Virginia Power RFP excluded merchant supplies which could meet Virginia Power's needs. A hearing examiner concluded that the RFP improperly disqualified existing generation and imports from the solicitation, and recommended a new RFP be issued. Virginia Power executives told investors they doubted the Commission would sustain that finding (Matters, 1/30/09).

Indeed, in its final order, the SCC found that, "power purchased from an existing generator adds no new capacity to the Dominion Zone and, thus, does not increase service reliability and reserve margins, and cannot reduce the heavy congestion that currently characterizes the Dominion Zone, in an equivalent or sufficient manner as compared to new in-zone generation construction."

Continued heavy reliance or increased reliance on transmission imports, "may not be desirable as load continues to grow and system conditions continue to change over time," the SCC said.

"New generation within the zone provides a greater certainty that additional capacity will be available within the Dominion Zone as needed than can reliably be provided through existing resources either within or outside of the zone," the Commission added.

Power purchases from existing resources will not address the congestion problem nor have any effect on lowering zonal energy, market clearing, or scarcity pricing in the Dominion Zone, the SCC concluded.

Based on such findings, the SCC held that it was reasonable to limit Virginia Power's RFP to new construction in the Dominion Zone.

MISO Files to Revise Cost Recovery Adder

The Midwest ISO filed at FERC to revise its methodology for calculating the ISO Cost Recovery Adder, under Schedule 10 of its tariff, to permanently set at 50% both the percentage of billing units that are based on megawatt-hours of energy, and the percentage of billing units that are based on megawatt-hours of reserved capacity.

Schedule 10 is used to recover costs of operating the Midwest ISO and administering the tariff, to the extent such costs are not recovered in other rates.

Among other reasons, MISO said the change is needed to address potential cost shifts from lower load factor customers to higher load factor customers. Such a cost shift will occur if the current methodology is left in place, MISO said, as the current methodology has no cap on the percentage of billing determinants represented by megawatt-hours of energy, and contemplates their eventual increase up to 100%. MISO said its proposal addresses this flaw by holding the ratio at 50%, while introducing no significant change in the current 40% capacity, 60% energy allocation.

Briefly:

Stakeholders Work to Eliminate Mandatory REP Tier from POLR Proposal

Texas stakeholders continue to refine draft new POLR rules, with focus moving toward increasing incentives for REPs to offer service as voluntary POLRs, as a means of eliminating the currently proposed middle POLR tier of mandatory POLRs, which would consist of all eligible REPs offering a monthly, competitive rate for service (35769, Matters, 2/27/09). Several additional customer protections would also be tied to elimination of the middle mandatory POLR tier, which was originally proposed to provide another cushion to prevent customers from being kicked to an MCPE-based rate, PUCT Commissioner Donna Nelson said, who is leading drafting efforts. Among such additional changes are increasing the time POLRs must wait before requesting customer deposits, requiring POLRs to perform a credit check before requesting a deposit, increasing the number of non-volunteer backstop POLRs from the current five to 15, and reducing non-volunteer POLR rates to 120% of MCPE from the current 130%.

DPUC Draft Would Grant Aggregator License to Positive Energy

A draft Connecticut DPUC decision would grant Positive Energy Electricity Supply an electric aggregator certificate to serve residential, commercial, industrial, municipal and governmental customers (Matters, 2/6/09). Positive Energy intends to focus on residential, commercial and municipal consumers, and its business model entails customers appointing Positive Energy as their exclusive electricity consultant, with customers individually entering into an agreement with the chosen electric supplier.

MISO Reports Another Default

The Midwest ISO said Friday that Palms Asset Management was in default for failure to cure a total potential exposure violation.

TAC Vote Clears Way for New CREs

ERCOT's Technical Advisory Committee unanimously denied a motion to reject three new proposed Closely Related Elements proposed by ERCOT, meaning the CREs will take effect. The three CREs are Gibbons Creek-Singleton #2, Singleton-Roans Prairie, and Singleton-Tomball (Matters, 3/23/09).

PUCT Continues 16.9¢ Nodal Surcharge Through May

The PUCT voted to continue the current 16.9¢/MWh nodal surcharge through May 31, 2009, as ERCOT prepares to file for an updated surcharge of 32-38¢/MWh (Matters, 3/19/09).

Detroit Edison Reports Updated Sales Figures

Detroit Edison reported to the Michigan PSC that its actual retail sales during 2008 were 49,349,308 MWh, and that its 2008 average weather adjusted retail sales were 49,285,206 MWh, with such figures to be used to set the 10% cap on retail choice.

Constellation NewEnergy Seeks to Relinquish Redundant Mich. Gas License

Constellation NewEnergy-Gas Division applied at the Michigan PSC to relinquish the alternative gas supplier license of its subsidiary Cornerstone Energy, as Cornerstone was "collapsed" into Constellation NewEnergy-Gas Division in February as part of a simplified corporate structure. Constellation NewEnergy-Gas Division retains its own retail license, and said all of the Cornerstone customers have accepted assignment to Constellation NewEnergy-Gas Division.

Industrials Caution DPU on Costs of WMECO Solar

Western Massachusetts Electric Company's proposal to build up to 50 MW of utility-owned solar generation will result in almost a $200,000 increase in electric rates for some commercial customers, the Associated Industries of Massachusetts (AIM) and the Berkshire Chamber of Commerce said in comments at the Massachusetts DPU (09-05, Matters, 2/13/09). The business groups are concerned that the estimated $42 million cost of WMECO's program, "will cause a negative impact on businesses and employment," in WMECO's service area.

N.J. BPU Approves Utility Proposals for Long-Term Solar Contracts

The New Jersey BPU approved proposals from Jersey Central Power and Light and Atlantic City Electric to offer long-term contracts to purchase the solar RECs of customers. The BPU said the contracts would assist in transforming the solar market from relying on rebate-based financing to a competitive financing system based on solar RECs. JCP&L said it expects its program, offering 10 to 15-year contracts via a competitive RFP, to support the phase-in of about 42 MW of solar generation over the next three years. Solar RECs purchased through the contracts will be sold to energy suppliers through an auction process, with revenues from the sales used to offset program costs.

PG&E Rethinks CAISO Price Posting Policy

Upon reconsideration of the benefits of the policy, Pacific Gas and Electric said in a filing at FERC that it no longer opposes a California ISO proposal to delay posting of market prices under the Market Redesign and Technology Upgrade for up to 48 hours under certain circumstances (Matters, 3/24/09).

NYISO Responds to McCullough Report

The New York ISO released a response authored by Susan Tierney, Managing Principal at the Analysis Group, rebutting a McCullough Research report touted by several lawmakers who favor a return to cost-based regulation of generation (Matters, 3/4/09). Tierney said that McCullough's paper ignores the fact New York’s electricity prices were high under the traditional regulatory approach idealized in the report, and ignores New York’s fuel mix and the quadrupling of natural gas prices. Further, "McCullough fails to mention that if suppliers were only paid at their marginal costs, valuable renewable power resources like wind farms would have a much-harder time entering New York’s power market," Tierney noted. If wind farms were compensated only for their marginal cost, then they would be paid virtually nothing for the power they supply into the state’s energy market.

Pa. POR ... from 1:

residential and small business customer accounts. Under the draft, LDCs may only purchase receivables, "associated with natural gas supply service charges," and may not purchase other receivables that may be incurred by suppliers. A supplier's accounts receivable could be used to satisfy security requirements for licensing as a natural gas supplier.

As previously noted, the draft rules direct LDCs to remove costs of gas procurement from base delivery rates, and apply such costs to the bypassable Price to Compare. While the PUC did not specify all of such costs, due to the varying nature of specific LDCs' tariffs, the Commission did say that, "it should be obvious that this will apply to all fuel procurement-related costs ... [including] operation and maintenance expense, any procurement-related investment costs, and payroll costs for employees involved in supply acquisition."