

Energy Choice Matters

April 1, 2009

PECO Opts to File Cost of Service Study Instead of Voluntary POR Plan

PECO has decided not to pursue a voluntary purchase of receivables program for competitive natural gas supply due to cost and implementation concerns, it told the Pennsylvania PUC in a compliance filing.

A Commission order directed LDCs to file either voluntary POR programs, or to file a fully allocated cost of service study in their next rate case or 1307(f) proceeding, which PECO committed to doing in its filing (Matters, 3/27/09). The cost of service study would permit the unbundling of delivery rate components to achieve a similar level playing field as exists under POR.

LDCs were required to file their plans by March 31, though PECO's plan was the only filing publicly available at press time.

PECO said it performed a cost-benefit analysis in determining whether to implement a voluntary POR program at this time. The analysis determined that the information technology costs alone to adjust PECO's billing system would be approximately \$1.5 million. Necessary adjustments would also take at least one year to complete, PECO told the PUC.

The costs of implementing such programs would also place a high cost on a relatively small number of natural gas consumers, PECO said. Competitive natural gas suppliers that might participate in the POR program, "do not have a high volume of natural gas nor do they have a large volume of customers," PECO reported.

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Conn. OCC Wants DPUC to Open Docket to Review Generation Services

The Connecticut Office of Consumer Counsel petitioned the DPUC to open a docket related to electric generation services, to, among other things, fulfill what OCC says are statutory obligations for market monitoring and a review of the rate impacts of Last Resort Service and Standard Service.

OCC pointed to Connecticut General Statutes Sec. 16-245x, which requires the DPUC, in consultation with the Office of Consumer Counsel, to, "monitor on an on-going basis the state of competition, as it exists and as it is likely to evolve, and the average total rates of each customer class." Statute requires the Department to file a report with lawmakers annually by January 1, OCC said.

However, the most recent report the OCC was aware of is the Department's 2005 review, dated February 6, 2006, in docket 05-11-05. The consumer counsel further said that even if the DPUC is producing such reports, it is not doing so "in consultation with" OCC.

Sec. 16-245x also directs the DPUC to require electric distribution companies to file quarterly reports on average prices and default service prices, which is currently being done.

OCC further noted that Section 60 of Public Act 07-242 requires the DPUC to, by January 1,

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Levco to Opt for Marketing over Aggregation

Levco Tech said it plans to "suspend" its aggregator license and instead market electricity for one or more electric suppliers, given the current uncertainty regarding indirect sales channels in Connecticut, the broker-aggregator said in a letter to the DPUC.

Originally arising from Dominion Retail's license renewal application (Matters, 12/4/08), the Department has said that electric aggregators in Connecticut must act as only the customer's agent, due to the statutory requirement that aggregators pool customers for purposes of, "negotiating the purchase of electric generation services from an electric supplier." Aggregators, therefore, cannot act as agents of retail suppliers, the Department concluded. According to the DPUC's interpretation of various contracts, Levco had been acting as an agent of Dominion Retail while also acting as the customer's agent as an aggregator, prompting the Department to order a change in the relationship (Matters, 3/12/09).

Responding to a March 10 letter from the DPUC asking Levco whether it intended to keep its status as an aggregator (which would necessitate ending any agent relationships with suppliers), or become a broker not subject to DPUC certification, Levco said it currently plans to, "suspend its aggregator license and market electricity for one or more electric suppliers."

However, Levco noted proposed legislation would subject brokers to DPUC certification similar to electric aggregators.

Vendor Shortfall Delays Duke Ohio Prepaid Pilot

A planned test by Duke Energy Ohio of prepaid metering service was not conducted due to a vendor's inability to provide the program's offerings, Duke said in a request at PUCO to reconcile the Demand Side Management Riders for recovery of program costs, lost margins, and shared savings associated with the implementation of

demand side management programs for residential and small/medium business customers. The final reconciliation would be used to update Rider DR-SAW.

The reconciliation reflects the end of programs previously approved and offered for the period July 1, 2008 to December 31, 2008. As part of its recent electric security plan and related cases, Duke received approval for revised demand side management programs.

In 2007, PUCO allowed Duke to offer 13 demand side management programs, one of which was a test of prepaid billing services.

Duke had planned to test prepaid service by recruiting 100 consumers in single-family homes per year for four years, and analyzing their energy savings compared to a control group. According to Duke, the prepaid system would have allowed consumers to see price and usage impacts on a real-time basis, providing immediate feedback and enabling consumers to realize that the steps they take to modify their behavior to be more efficient actually save money. Prepaid programs at other utilities have resulted in 10% to 20% energy savings, Duke said.

The program would also allow consumers to adjust their payments to better meet their personal schedules and cash flow, Duke said.

While a competitive bid process was used to choose a subcontractor to implement the program, Duke later determined that the chosen vendor would not be able to deliver the functionality required by the program and marketplace. Specifically, the vendor was not able to provide services related to disconnect and bypass of disconnect, and was also unable to provide remaining dollar amounts or kWh on the meter's in-home display. Accordingly, the prepaid billing services program has not been implemented. A new subcontractor will be chosen to implement the program, Duke said.

Mass. Electric Utilities File Smart Grid Pilots

Massachusetts distribution companies filed plans with the DPU for smart grid pilots, as required under the Green Communities Act.

National Grid's two-year pilot would provide advanced meters to 15,000 customers in the Worcester area across a broad customer base: single and multi-family homes and small businesses across urban, suburban and rural settings with variable electricity usage. Customers would have the option of installing additional smart grid technologies and equipment, such as smart thermostats. Participants would receive real-time usage information through a text message, from the Internet, or on a PDA.

Grid's \$57 million proposal also includes a new pricing option that would allow customers to save money during periods when electricity use is at its highest across the region.

Nstar's smart grid pilot would include 3,000 customers, who would be able to access real-time energy usage information via a Home Area Network and web application provided by Nstar. At times of high demand, customers would be notified of incentives available to those willing to lower their use. Customers would also be offered smart thermostats.

Western Massachusetts Electric Company is proposing to focus smart grid pilots on 600 to 800 low-income customers, offering customers an inclining block rate structure with lower rates for the first 300 kWh and higher rates thereafter. WMECO will also file to offer prepaid service.

ERCOT Files for Updated Nodal Fee

ERCOT filed at the PUCT for an updated nodal surcharge, with the final amount recommended dependent on the Commission's disposition of the surcharge for the remainder of 2009. ERCOT requested that the Commission adopt the interim surcharge of \$0.226/MWh included in a pending settlement for the remainder 2009, and implement a new nodal surcharge on January 1, 2010 at the following levels, depending on when the interim surcharge for 2009 is started.

If the PUC made the interim surcharge effective on the following dates, ERCOT

would request a new surcharge of the listed amount to start January 1, 2010:

Interim Fee Start	2010-14 Surcharge
June 1, 2009	\$0.335/MWh
July 1, 2009	\$0.341/MWh
August 1, 2009	\$0.347/MWh
September 1, 2009	\$0.353/MWh

If the Commission does not approve an interim surcharge, and keeps the current \$0.169/MWh rate until Jan. 1, 2010, ERCOT requested a new nodal surcharge of \$0.375/MWh starting January 1, 2010.

Briefly:

Direct Energy Business Starts Affinity Partnership with NFIB

Direct Energy Business has partnered with the National Federation of Independent Business to offer NFIB members an electricity purchasing program. Direct said the program, which offers a fixed-rate contract, will enable small businesses, "to take advantage of electricity prices typically reserved for large electricity users." The program is currently available in selected areas of Maryland and Texas, to NFIB members with commercial accounts. NFIB selected Direct as its recommended energy supplier through a competitive process.

Margins Down at Priority Power

Broker-consultant Priority Power Management posted net income of \$1.3 million in 2008, a slight decline from 2007's net income of \$1.6 million, parent Amen Properties said yesterday. Amen reported margin dilution at Priority Power due to a 200% increase year-over-year in general and administrative costs, from the opening of new sales offices and the addition of sales staff earlier in the year. Amen expects margin improvement for Priority in 2009 as a result of staff reductions and other cost cuts that occurred in the fourth quarter of 2008. Priority Power's revenues increased 23% in 2008 due to customer growth and progress payments for a power plant development project. Parent Amen posted lower net income of \$550,000 for

2008, down from \$1.3 million a year ago.

NRG Says Reliant Hart-Scott-Rodino Waiting Period Ends

NRG Energy said that the U. S. Department of Justice and Federal Trade Commission have granted early termination of the Hart-Scott-Rodino Act waiting period for its planned acquisition of Reliant Energy's Texas retail business, which NRG called the most significant regulatory approval needed to move forward with the Reliant transaction. The acquisition remains on track to close in the second quarter of 2009, NRG said.

Consumers Energy Reports Forecast Summer Peak

Consumers Energy reported to the Michigan PSC that the forecast, weather-normalized generation requirements in its service area at peak during summer 2009 will be 8,578 MW, including load associated with retail access customers and service to interruptible customers. Coincident peak load served by competitive suppliers it estimated to be 256 MW for the summer, though Consumers stressed the amount of retail access load has been subject to considerable variation. Consumers estimates that competitive suppliers will serve 370 MW of nominal retail access load by August 2009, with the coincident peak summer load of 256 MW projected to occur in that month.

Stipulation on Duke Ohio Rate Case Leaves Shopping Credit Rider Intact

A stipulation filed in Duke Energy Ohio's electric rate case withdraws from the case Duke's original proposal to eliminate the shopping credit rider (Rider SC), as the settlement holds that Rider SC will continue as provided in Duke's recent electric security plan, which establishes which charges are bypassable.

FERC Denies Muni Complaint to Adopt MRTU Invoice Safety Net

FERC denied a complaint from the California Municipal Utilities Association, which had sought to establish an Interim Payment Option at the start of the Market Redesign

and Technology Upgrade to function as a safety net mechanism to allow scheduling coordinators to defer payment of potentially high invoices pending investigation of those high charges. FERC found CMUA failed to meet its burden in showing that the current MRTU payment rules were unjust and unreasonable, as FERC noted CAISO has "sufficient safeguards" already in place to provide adequate opportunities to protect market participants from anomalous prices, and provide market participants with reasonable avenues to report any potential problems, including the tariff authority to validate and correct anomalous prices, fill in missing data, and impose price caps. CMUA also failed to show its proposal would be just and reasonable, FERC said.

Md. Senate OKs Competitive Bidding HVAC Bill

The Maryland Senate approved a bill (SB 955) which requires electric utilities to conduct competitive selection of heating, ventilation, air conditioning, or refrigeration service providers if the utility proposes to offer such services to achieve certain EmPower Maryland savings targets. The PSC could waive the competitive bidding requirement for good cause. The bill now heads to the House.

NERC Submits Penalty Notices to FERC

NERC submitted to FERC three penalty notices regarding generation reliability standards. Under a settlement with SERC, FPL Energy LLC will pay \$250,000 in penalties related to generation protection systems and critical infrastructure protection. Though the violations were self reported in June 2007 before the mandatory standards went into effect, FPL Energy LLC did not produce satisfactory evidence of fulfillment of its mitigation plan, extending the violations into the mandatory compliance period. Dynegy would pay \$0 under a settlement with SERC for failure to maintain the hourly integrated voltage value of a specified unit with the voltage specified by the Transmission Operator for the relevant hour. Dynegy's violations were self reported; occurred during

the initial mandatory standards implementation period in 2007; and did not put bulk power system reliability at serious or substantial risk because the deviations were small in magnitude (about 1% outside of the specified tolerance). Thus a penalty of \$0 is appropriate, NERC said. NERC also submitted a notice of penalty against Black River Generation regarding generation protection systems, with a penalty of \$0 because the violation occurred during the transition period to mandatory standards.

PECO ... from 1:

PECO said since suppliers will be responsible for funding the program, and would have to pass the high program costs onto a small customer base, suppliers may simply choose not to participate in the POR program. In such a case, PECO said it would then have no means to recover its substantial implementation costs.

Furthermore, a new accounting standard recently adopted by the Financial Accounting Standards Board (SFAS No. 157, Fair Market Value Measurements) also creates problems, PECO observed. Under the new standard, PECO is required to value all purchased receivables not at the price paid, but at the fair market value -- meaning the value if the receivable was sold in the general marketplace. "In the current economic climate, the market value would likely be less than the purchased value, resulting in an immediate markdown and an adverse affect on earnings," PECO cautioned.

PECO additionally argued implementing a stand-alone POR program for gas suppliers is not optimal as any POR program must be first integrated with other aspects of ongoing proceedings. It may be more reasonable for PECO to implement a POR program after other current proceedings are resolved, PECO said, noting the settlement in its default electric service proceeding would direct PECO to convene a POR collaborative prior to filing an electric choice POR program to become effective beginning January 2011. Dealing with the electric and gas POR programs in an integrated fashion may result

in significant information technology cost savings and operational synergies, PECO noted.

"Although PECO respectfully declines to submit a voluntary POR program at this time, it will continue investigating how to implement such a program at an appropriate future time," PECO said.

Conn. OCC ... from 1:

2009, conduct a study on the efficacy and rate impact of Last Resort Service and Standard Service. The Last Resort Service report must review the service's ability to meet the needs of commercial and industrial customers and the development of a competitive electric supply marketplace with competitive suppliers and products, as well as statutory goals under Section 16-244c of the General Statutes.

The Standard Service review must only examine whether the service meets the statutory goals, such as mitigation of price variation through creation of a portfolio designed to, "invite competition; guard against favoritism, improvidence, extravagance, fraud and corruption; and secure a reliable electricity supply while avoiding unusual, anomalous or excessive pricing."

The consumer counsel said that it was not aware that the Department has begun such a study, and said that, at the least, "no such proceeding has been announced publicly."

However, as noted in this space, the DPUC docketed as 09-02-03 the required study on February 2, 2009 (Matters, 2/3/09), and released a draft decision on March 25 (Matters, 3/26/09).

It was unclear if OCC was unaware of the draft study, or rather dismissed the DPUC's work product as not in compliance with statutory direction to review specific aspects of default service. The draft does read more as a summary of the DPUC's default service approach and is thin on conclusions regarding its efficacy, though the Department does broadly say Standard Service is meeting goals of limiting price volatility.

The OCC urged the DPUC to "promptly" open a proceeding to address the requirements of Section 60 of Public Act 07-

242, which seems to have already been accomplished through docket 09-02-03, as well as to "catch-up" on annual reporting requirements under Sec. 16-245x.