Energy Choice Matters

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Latest PPL 2010 Procurement Sees Lower Prices

Average prices for residential supply purchases in PPL's latest default service solicitation were 19% lower than the average price achieved in the first four rounds, PPL said after the PUC approved the results.

If prices in the last round of procurement, scheduled for October, match the lower prices received in the latest round, PPL estimates the average residential customer bill would increase by 30.4% in 2010, down from the previous estimate of 36.1%.

The retail residential price for the fifth procurement was $86.74/MWh, versus $107 in the previous RFP. The average residential price of all procurements to date is $102.98/MWh.

PPL Electric President David DeCampli said PPL's three-year laddered procurement has reduced the risk of price spikes for customers. However, it has also produced higher prices than if all the load had been bought in the present procurement, closer to the delivery date. On the other hand, should market prices not change appreciably between now and January 1, 2010, when rate caps are scheduled to rolloff, competitive suppliers should see reasonable headroom in the territory due to the bulk of PPL's procurement occurring at the height of the market.

The small C&I retail price from the fifth procurement was $87.59/MWh versus $107.89/MWh in the fourth procurement. The average small C&I price from all procurements to date is $103.84/MWh.

If prices in the fall reflect the lower prices in fifth round of purchases, estimated monthly bills for small business customers would increase on average about 18.9%, down from the previous 25% estimate. Monthly bills for mid-size business customers would increase on average about 36.8%, down from a previous estimate of 44.3%

Thirteen suppliers competed in PPL's fifth procurement.

Mich. Staff Would Maintain Disparity in Consumers Energy Stranded Cost Charge

Michigan PSC Staff has proposed keeping the current level of the stranded cost recovery surcharge imposed on retail access customers at Consumers Energy, and imposing a new stranded cost surcharge on bundled service customers that, while higher than what Consumers requested, is still less than the charge paid by retail access customers (U-15744).

Act 286 of 2008 mandates that stranded costs shall be recovered within five years of its effective date of October 6, 2008.

Currently, only retail access customers on competitive supply pay for stranded costs, via a $0.0012/kWh surcharge. Under that mechanism, stranded costs have actually grown from $63.2 million in 2004 to $70.7 million in 2008, because retail access sales have been below assumed levels, resulting in interest being accrued faster than the principal balance can be reduced.

Consumers Energy applied to increase the retail access surcharge to $0.001866/kWh, and also to implement a bundled service stranded cost recovery surcharge of $0.000666/kWh. The proposed rates would maintain the current $0.0012/kWh differential between what is paid by choice customers and bundled customers for stranded cost recovery, Consumers has said (Matters, 1/26/09).

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Detroit Edison Renewable Enrollment Less Than 1% of Customer Base

Enrollment in Detroit Edison's GreenCurrents program more than doubled in 2008, but still stands at less than 1% of Edison's 2.2 million customer base.

GreenCurrents saw 8,591 new enrollments in 2008 to bring the year-end total to 15,413 customers (14,759 of which were billed). Residential customers make up the vast majority of subscribers, at 14,661. Enrolled commercial customers stand at 73, while 25 industrial customers have chosen the renewable option. As of February 28, 2009, enrollment in the GreenCurrents program had reached over 17,200 customers.

Detroit Edison purchased 55,202 RECs to support the 38,635 MWh of GreenCurrents usage in 2008, with 4,201 RECs used to meet 2007 sales to GreenCurrents participants and 12,366 RECs left for use towards 2009 GreenCurrents sales. All RECs were sourced from Michigan wind and biomass, at a weighted average price of $15.32/REC.

The GreenCurrents program produced a net loss of $1.05 million for the year, as $840,000 in revenue was offset by the RECs cost of goods sold of $590,000 and program expenses of $1.3 million. Notable non-labor expenses include:

Expense	Amount
Direct Mail/Bill Inserts/Bangtails	$327,549
Events	$393,115
Communications	$992
Misc. Travel and Expenses (e.g. conferences, business lunches, etc.)	$62,759
Other (e.g. employee campaign, affinity program, demonstration projects, etc.)	$21,846

Detroit Edison promoted GreenCurrents during 2008 primarily through bill inserts, direct mail, and events. Two direct response channels were used to solicit program enrollment: targeted mailings and bill inserts. Direct mail accounted for approximately 25% of total enrollments, with public events accounting for 61%, and web-based options for 11%.

As there were no excess revenues for the GreenCurrents program in 2008, Edison said the GreenCurrents program is unable to develop additional renewable generation projects under the program or lower the rate for participants at this time.

Texas ALJs Would Deny Kelson CCN Application

Kelson Transmission's CCN application for a 345-kV transmission line to interconnect Kelson’s generation affiliate, Cottonwood Energy, with ERCOT should be denied because, among other reasons, Kelson has not satisfactorily justified the economic benefits of the project, three ALJs said in a proposed order filed with the PUCT (34611). In the alternative, the ALJs recommended that the case be remanded to allow Kelson the opportunity to present further evidence and submit the project for review by ERCOT.

Kelson's 1,244-MW, 95-mile line would permit Cottonwood to sell output from its plant into ERCOT, allowing Cottonwood's 1,200 MW generating plant to disconnect from the Entergy Texas system (Matters, 10/20/08).

Kelson sponsored an ICF report estimating $528 million in consumer benefits for the first three years of the line, exceeding the latest estimated cost of the line at $426 million. However, the remainder of Kelson's economic arguments, "did not support a transparent and integrated picture of the costs and benefits of Kelson’s line on ERCOT and [Entergy] ratepayers," the ALJs said, because Kelson did not provide a cost/benefit analysis or reasonable discount rates until its rebuttal case, after opponents had prefiled their testimony.

"[T]here are distinct drawbacks when an important justification for the line’s need is presented as a response to criticism instead of a comprehensive starting point for discussion and development of the evidentiary record," the ALJs noted.

PUCT Staff and other stakeholders have argued that Kelson has not shown that benefits would outweigh the costs of the line, which would be paid by customers within ERCOT.

"Although the ALJs acknowledge the potential consumer benefits, they also find that the Opponents have raised legitimate unanswered questions, causing the ALJs to conclude that Kelson has failed to meet its burden of proof on need. Therefore, the Application should be denied," the ALJs said.

If such concerns are set aside, the estimated consumer benefits may provide enough reassurance to the Commission to establish the economic need for the project, the ALJs conceded.

"But even in that instance the ALJs recommend that the Project be reviewed by ERCOT. The ALJs understand that this review would result in a substantial delay for the Project. Nevertheless, there is too much uncertainty associated with assumptions in the ICF Reports, benefits, costs, and comparison to other pending projects that Kelson did not analyze," the judges concluded.

The ALJs also held that Kelson should have submitted the project for ERCOT Regional Planning Group (RPG) review, noting the Commission's Substantive Rules make clear that ERCOT is responsible for transmission planning, and the RPG is part of that planning process.

Citing "big-picture problems" with Kelson's proposed approach of relying only on the ERCOT Generation Interconnection Process to review the project, the ALJs observed that the primary generation interconnection request is from Kelson's affiliate, "for whom Kelson has essentially lobbied in this proceeding."

"Kelson seeks to recover the costs of the transmission line from ratepayers of ERCOT, from whom the Commission seeks a recommendation on whether the economics of the line justifies its need under PUC SUBST. R. 25.101(b)(3)(A). If Kelson's argument is a proper reading of the rule, then an interconnection request is essentially self-fulfilling on the question of need. In theory, there would be no other justification necessary," the ALJs noted.

According to the ALJs, Kelson also failed to provide sufficient evidence that it could provide continuous and adequate service, noting Kelson has no firm financial commitments and no financial guarantees. Kelson Holdings' parent companies are various Harbinger Capital hedge funds whose combined assets under management were approximately $20 billion in March 2008, but nothing compels Kelson's owners to provide it with any funding.

Kelson has not provided a business plan that includes a financial plan; does not have a balance sheet, cash flow statement, or income statement projections; has not decided on a financing method or structure; and has not obtained financial guarantees or financing commitments, the ALJs found.

Pointing to a lack of such financial and business plans, the ALJs cited testimony that, "repeatedly makes clear that its [Kelson's] focus is what 'the investment community' wants and thinks, not what the Commission needs to analyze to determine the company's fitness for a CCN."

"Kelson is essentially arguing that the Commission should trust it, and trust its potential sources of financing, to ensure its financial soundness," the ALJs stated, adding, "Public protection cannot and should not be ignored in favor of investors' favored timelines."

FERC Orders More Info on NYISO Rest of State ICAP Review

New York ISO reports regarding withholding in the ICAP market are deficient, FERC said in requiring NYISO to file additional information (ER03-647-013). Transmission Owners have repeatedly said that the reports lack information required by previous Commission orders to examine the Rest of State capacity offers that were not accepted, by comparing the capacity offers submitted to a reasonable estimate of the resources' going-forward costs (Matters, 8/18/08).

While a July NYISO report showed that Rest of State withholding did not occur, FERC said the information provided lacks sufficient explanation to support the ISO's conclusion. FERC directed NYISO to examine going-forward costs of Rest-of-State generators without adjustments made in the July report for costs associated with the risks of Day-Ahead Market bidding and for burning Powder River Basin coal.

The Commission also directed NYISO to include a reasonable range of values for expected energy and ancillary service revenues, which NYISO did not adjust for in its estimates

NYISO found that the Rest of State ICAP megawatts that were offered but not sold were generally at the upper output levels of the relevant units. FERC directed NYISO to explain why such high end bids are consistent with competitive bidding behavior.

The ISO must also update a similar January report (Matters, 1/20/09) with comparable revisions.

FERC Dismisses PJM Complaint Against Tower in Part, Orders Return of Withheld Funds

FERC dismissed part of a complaint by PJM against various affiliates of Tower Research Capital, concluding that the Tower Companies did not form trader Power Edge with the intent to defraud. In a related decision, FERC granted the Tower Companies' complaint to direct PJM to return withheld collateral and revenues to several Tower Companies, which PJM had been withholding to potentially offset the obligations of defaulting affiliate Power Edge (EL08-44-, EL08-49).

The decision stems from the default of Power Edge, which traded in the Financial Transmission Rights (FTR) and other markets. Power Edge was affiliated with several other traders, including Accord Energy LLC, BJ Energy LLC, Franklin Power LLC, GLE Trading LLC, Ocean Power LLC, Pillar Fund LLC, Tower Research Capital LLC, and Tower Research Capital Investments LLC (collectively, Tower Companies).

In December 2007, Power Edge defaulted due to its acquisition of a large, counterflow-heavy FTR portfolio from another market participant, and significant, extensive, and unforeseen transmission outages during the autumn and winter of 2007. The default left obligations of $51.7 million.

In a FERC complaint, PJM made various allegations of market manipulation and fraud against Power Edge and its affiliates. Two specific allegations were adjudicated by FERC yesterday: PJM's claim that certain Tower Companies defrauded PJM by entering into coordinated, offsetting positions in the FTR market in order to concentrate high-risk or losing positions in Power Edge, and deliberately causing Power Edge to default on its obligations, through under-capitalization and other means. Other allegations made in PJM's complaint are still being investigated by FERC's Office of Enforcement.

With respect to the two cited allegations, FERC found no evidence that the Tower Companies' dealings with Power Edge constituted a scheme or artifice to defraud made with the requisite scienter, and thus found no violations of the Commission's regulations.

According to FERC's enforcement office, the evidence shows that Power Edge's representatives undertook significant efforts to help Power Edge survive and return to profitability, including attempting to pay transmission operators to accelerate outages that were adversely impacting Power Edge's FTR position. FERC's analysis also shows that, rather than having its store of capital depleted, Power Edge repeatedly received significant cash infusions, despite the poor performance of its portfolio, indicating that the LLC was not created simply to default.

"If Power Edge had been created for the purpose of defaulting, Tower would not have continued to invest additional millions into the enterprise that it knew it would never get back if Power Edge failed," the FERC report said.

FERC noted Power Edge's acquisition of Exel Power Sources' counterflow-heavy FTR portfolio was one of the biggest factors in the magnitude of Power Edge's default. While Power Edge initially sought to acquire only part of Exel's portfolio, "PJM encouraged Power Edge to acquire it in its entirety," FERC noted.

Furthermore, Power Edge's behavior in the FTR markets subsequent to its acquisition of the Exel portfolio seem to reflect an attempt to hedge its counterflow-heavy FTR position by selling counterflow FTRs and purchasing prevailing flow FTRs. Such actions are consistent with an intent to reduce risk and mitigate the magnitude of any potential default, and do not support PJM's allegations, FERC said.

Additionally, FERC said PJM overestimated the degree to which the Tower Companies' positions offset or correlated with positions held by Power Edge, indicating the affiliates were not gaming the market as alleged. PJM's overestimate resulted from not considering all factors which must overlap in truly offsetting FTR transactions (term, MW quantity, receipt point, and delivery point), and from considering affiliate transactions after Power Edge's default to be offsetting, when such actions represented a perfectly rational response to new information and opportunities.

FERC determined that the Tower affiliates purchased a grand total of 22 MW of FTRs opposite to positions held by Power Edge during the time period in which Power Edge was able to purchase additional FTRs, and only 2 MW of these were prevailing flow FTRs.

"Given the magnitude of Power Edge's open positions – over 14,000 MW of counterflow FTRs and nearly 4,000 MW of prevailing flow FTRs based on the annual portfolios alone – the correspondence is vanishingly small," FERC's enforcement office concluded.

After concluding that the Tower affiliates did not form Power Edge to defraud the PJM market, FERC found that PJM has no basis to withhold collateral and revenues from the Tower Companies. PJM has withheld over $25 million in Tower funds, claiming that, if collusion among the affiliates were proven, such funds could be used to offset Power Edge's default.

However, such withholding is plainly contrary to the PJM tariff, FERC said. FERC's finding is without prejudice to PJM seeking an order from a district court requiring the preservation of the funds for district court litigation.

PJM attempted to use its tariff provision allowing the RTO to apply revenues payable to a company to meet unpaid obligations. But FERC held that such application of the set-off provision to other Tower Company affiliates in order to recover funds Power Edge owes PJM, "stretches the meaning of this set-off provision beyond its language."

"The provision focuses only on amounts that a single member owes PJM for which PJM can offset amounts that it owes that member; in other words, the set-off applies as between PJM and a single member, not among different affiliates, as PJM claims," FERC ruled.

Briefly:

Delay for SWEPCO Transition to Competition Passes Senate

The Texas Senate unanimously passed SB 547 which delays the transition to competition at AEP SWEPCO, as the bill finds that SWEPCO, "is unable at this time to offer fair competition and reliable service to all retail customer classes in the area served by the utility." Unlike the introduced version of the bill, the engrossed version does not require specific legislative approval before competition may be introduced in the region, though several benchmarks must be met. Among them are the requirement that SWEPCO's qualifying power region develops a market for ancillary services and a market-based congestion management system. SWEPCO is currently in the Southwest Power Pool. Previous PUCT orders had delayed competition in SWEPCO until 2011 at the earliest. The bill does not contain a specific date before which competition may not be introduced.

Energy Savings Income Fund Expects Higher Gross Margin Growth

Energy Savings Income Fund revised its prior fiscal outlook upward due to cold winter weather, lower spot gas prices, and customer acquisitions, reporting that it now expects gross margin for the year ending March 31, 2009, to grow by more than 10%, versus its earlier guidance of a 5-10% increase. The year-over-year increase in gross margin for the quarter ending March 31, 2009, is now expected to be in excess of 15%.

Bounce Energy Offers Incentives for Green Plan

Bounce Energy yesterday announced several incentives coupled with its Blue Sky 100% renewable plan, including pricing the first month of the plan at the same price as its lowest market offer, its Super Saver variable plan. Bounce also said the Blue Sky variable product includes a $50 bill credit with auto bill pay sign up, free companion airfare for a year, $200 in energy efficiency products from partner Standard Renewable Energy, and rewards from Bounce Energy's loyalty program, such as receiving one month of electricity free upon timely payments of a customer's electric bill for 24 consecutive months. For April only, the product also includes the choice of a Home Depot $50 gift certificate or a $50 charitable donation to the World Wildlife Fund.

NYISO Submits Tariff Changes to Collect Reliability Penalties

The New York ISO submitted tariff revisions at FERC to allow the ISO to recover the costs of penalties imposed for reliability violations or violations of other applicable regulatory standards. The tariff would allow NYISO to recover such costs by application to FERC on a case-by-case basis. Recovery could either be allocated directly to the entity causing the violation, or in cases where such assignment is not possible or the ISO is itself responsible, recovery could be assigned to all customers and market participants, with 50% allocated to energy injections, and 50% allocated to withdrawals. The proposal would also allow customers and market participants to apply at FERC to assign penalties, which were directly assigned to them from NERC, to the NYISO if the ISO was the cause of the violation.

PUCT Staff Recommends Certificate for TCS Energy

After discussions with representatives of TCS Energy and its affiliates Young Energy, New Talk, Talk Now Telco and True Wireless, PUCT Staff has revised its recommendation and said TCS Energy should be granted a REP certificate (Matters, 2/26/09). Among other things, TCS Energy answered Staff concerns about its and its affiliates' financing, and has demonstrated that Young Energy and TCS have been separately and directly funded at a level that meets the minimum financial requirements. TCS Energy and its affiliates have also acknowledged and committed to various Commission reporting requirements, Staff said.

Constellation NewEnergy Reaches 1 GW of Demand Response

Constellation NewEnergy said it has reached 1,000 MW of enrolled demand response capacity.

Consumers ... from 1:

Staff, however, proposed to continue the current $0.0012/kWh retail access surcharge, while implementing a new surcharge of $0.000873/kWh on certain bundled service customers. Staff recommended that Wholesale, Rate E-1, Residential and Streetlighting bundled customers be excluded from its proposed new surcharge.

Residential customers and streetlighting customers should not have to pay for stranded costs because they, "have not had the choice of an alternate electric supplier," Staff said. Additionally, Wholesale rates are set by FERC, and the new E-1 rate was never part of the stranded cost consideration, Staff said.

Energy Michigan, however, pressed for an equal surcharge of $0.000724/kWh applicable to all distribution customers, regardless of commodity supplier. "Since no one customer is responsible for any more or less [of stranded costs] than any other customer, based on relative use characteristics, the only logical method of allocation that remains is an equal charge that affects all customers relatively the same," Energy Michigan said.