Energy Choice Matters

July 10, 2009

MISO Files to Allocate More Interconnection Upgrade Costs to Generators, Says Future of RTO Hinges on Allocation Reforms

The Midwest ISO filed at FERC proposed interim changes to the cost allocation of Network Upgrades for generation interconnection projects meeting the Midwest ISO's Regional Expansion Criteria and Benefits (RECB) test, stating that the future of the RTO hinges on correcting inequitable allocations resulting from the current allocation formula.

In essence, the MISO proposal would assign all or nearly all costs of such interconnection upgrades to generation developers, rather than assigning half of such costs to transmission owners. MISO said that the change is needed to avoid astronomical cost increases for remote pricing zones with small load levels but prodigious wind potential, and to prevent transmission owners from leaving the RTO due to such cost increases.

"The purpose of the proposal before the Commission today is to ensure that the Midwest ISO is preserved as an RTO," MISO said in testimony, noting that Otter Tail Power Company and Montana-Dakota Utilities have already announced their intent to withdraw from the Midwest ISO at the end of the year rather than face the outsized cost responsibilities that will befall them and their loads from generator interconnection agreements expected to be executed or filed with the Commission in the coming months.

A number of other transmission owners, such as Indianapolis Power & Light, Hoosier Energy Rural Electric Cooperative, and Southern Illinois Power Cooperative, have also notified the Midwest ISO of their intent to withdraw, partially attributing the decision to potential interconnection RECB cost exposure.

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Md. OPC, AOBA Oppose Surcharges to Recover POR Expenses

The Maryland Office of People's Counsel and Apartment and Office Building Association opposed the investor-owned utilities' request to implement surcharges to recover the cost associated with implementation of, and bad debt from, supplier Purchase of Receivables, arguing such costs should be reviewed in traditional ratemaking proceedings.

OPC noted that the Commission recently rejected Pepco and Delmarva's request to institute a surcharge to recover increased uncollectibles, since without a full review of the companies' other costs and revenues, the justness and reasonableness of a single-issue surcharge cannot be determined (Matters, 7/3/09).

The People's Counsel further noted the "extreme irony" that would result if the Commission grants the utilities' surcharge proposals - arguing that such cost recovery mechanisms would not level the playing field as competitive suppliers have urged, but would put suppliers in an "unwarranted superior position." Given the Commission's recent decisions to reject uncollectible mechanisms for the debt of the regulated companies, the approval of such surcharge recovery mechanisms for supplier expenses would actually result in superior treatment provided to suppliers, OPC reasoned.

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Fox, Smolen & Associates Says Industry Specific Terms Covered by HB 1822

The language of Texas HB 1822 requires terms specific to the electric industry to be defined on retail bills, and not just common utility terms such as "due date," Fox, Smolen & Associates said in comments at the PUCT (37070).

Fox, Smolen & Associates said that the legislature intended various line item charges, including terms such as taxes, transmission charges, distribution charges, system benefit fund, etc., must be defined on bills. The obligation should extend to all bills and not just for bills to customers under 50 kW, the broker said.

The broker noted that House State Affairs Chair Burt Solomons, in a letter to the PUCT, said terms such as customer charge, energy charge and fuel charge should be defined.

Fox, Smolen & Associates further said that the new REP disclosure rule and the expedited switching rule scheduled to take effect August 16, 2009 should be delayed. The delay of the REP disclosure rule would allow time for the overlapping requirements found in Sections 1 through 4 of HB 1822 to be considered. The delay of the expedited switching rule would allow customers to obtain the exact date of their contract expiration, which will enable customers to select the date for their new contract to coincide with the end date of their existing contract, the broker noted. "This information is currently not known by many customers and creates needless and costly early termination penalties," Fox, Smolen & Associates said.

Md. PSC Grants Five Broker Licenses, Levies Penalties on Unlicensed Brokers

In similar orders, the Maryland PSC granted broker licenses to five brokers which had conducted operations without a license. The PSC levied a penalty on each broker.

Energy Advisory Service

The Maryland PSC granted Energy Advisory Service, LLC a gas broker license and ordered the broker to pay a penalty of $100 for its prior unlicensed brokering activities.

Staff had recommended a civil penalty in the amount of $949.13, reflecting both a fine and unpaid PSC assessments from Energy Advisory Service's operations prior to licensing. "Staff notes that a major factor in determining that a civil penalty be required is that EAS was previously licensed as a supplier in Texas, and therefore, the Company should have acted prudently and applied for, and obtained, a supplier license before operating in Maryland," Staff said.

The Commission ordered Energy Advisory Service to pay a penalty in the amount of the assessment it would have paid during the period it operated without a license in Maryland or $100, whichever is larger. Based on the "back" assessments calculated by Staff, the penalty amount to be paid by Energy Advisory Service is $100.

Energy Advisory Service is licensed to broker non-residential customers at Baltimore Gas and Electric; Washington Gas Light; Columbia Gas of Maryland; and Chesapeake Utilities.

I.C. Thomasson Associates

The Maryland PSC granted I.C. Thomasson Associates a gas broker license and ordered it to pay a penalty of $100 for its prior unlicensed brokering activities. I.C. Thomasson Associates recently received an electric broker license in the state as well (Matters, 7/3/09).

Staff had recommended a civil penalty of $937.85, reflecting both a fine and unpaid PSC assessments from I.C. Thomasson's operations prior to licensing. "Staff notes that a major factor in determining that a civil penalty be required is that ICT was previously licensed as a supplier in several jurisdictions, and therefore, the Company should have acted prudently and applied for, and obtained, a supplier license before operating in Maryland," Staff said.

The Commission directed I.C. Thomasson to pay a penalty in the amount of the assessment it would have paid during the period it operated without a license in Maryland or $100, whichever is larger. Based on the "back" assessments calculated by Staff, the penalty amount to be paid by I.C. Thomasson is $100.

I.C. Thomasson's gas broker license covers non-residential customers at Baltimore Gas and Electric; Washington Gas Light; Columbia Gas of Maryland; Chesapeake Utilities; and Elkton Gas.

National Utility Service

National Utility Service received a gas broker license from the Maryland PSC and was ordered to pay a penalty of $100 for its prior unlicensed brokering activities. NUS recently received an electric broker license in Maryland as well.

Staff had recommended a civil penalty of $930, reflecting both a fine and unpaid PSC assessments from NUS's operations prior to licensing. "Staff notes that a major factor in determining that a civil penalty be required is that NUS was previously licensed as a supplier in several jurisdictions, and therefore, the Company should have acted prudently and applied for, and obtained, a supplier license before operating in Maryland," Staff said.

The Commission ordered NUS to pay a penalty in the amount of the assessment it would have paid during the period it operated without a license in Maryland or $100, whichever is larger. Based on the "back" assessments calculated by Staff, the penalty amount to be paid by NUS is $100.

NUS is licensed to broker non-residential customers at Baltimore Gas and Electric; Washington Gas Light; Columbia Gas of Maryland; Chesapeake Utilities; and Elkton Gas.

Power Brokers

The Maryland PSC granted Power Brokers an electricity broker license and also imposed a penalty of $100 for its prior unlicensed brokering operations in the state.

Staff had requested a civil penalty in the amount of $518.94, reflecting both a fine and unpaid PSC assessments from Power Brokers' operations prior to licensing. "Staff notes that a major factor in determining that a civil penalty be required is that Power Brokers was previously licensed as a supplier in Massachusetts and Texas, and therefore, the Company should have acted prudently and applied for, and obtained, a supplier license before operating in Maryland," Staff said.

The Commission, however, ordered Power Brokers to pay a penalty in the amount of the assessment it would have paid during the period it operated without a license in Maryland or $100, whichever is larger. Based on the "back" assessments calculated by Staff, the penalty amount to be paid by Power Brokers is $100, the Commission said.

Power Brokers' license permits it to serve non-residential customers at the four investor-owned utilities as well as Choptank Electric Cooperative and the Southern Maryland Electric Cooperative.

Electric Advisors

Electric Advisors, Inc. was granted a gas broker license by the Maryland PSC and ordered to pay a penalty of $100 for its prior unlicensed brokering activities. Electric Advisors, Inc. provides electricity services to 27 customers in Maryland, representing 35 Maryland electric accounts and one gas account.

Staff had recommended a civil penalty in the amount of $160, reflecting both a fine and unpaid PSC assessments from Electric Advisors' operations prior to licensing. "Staff notes that a major factor in determining that a civil penalty be required is that EAI was previously licensed as an electricity broker in Maryland, and therefore, the Company should have acted prudently and applied for, and obtained, a supplier license before operating in Maryland," Staff said.

The Commission ordered Electric Advisors to pay a penalty in the amount of the assessment it would have paid during the period it operated without a license in Maryland or $100, whichever is larger. Based on the "back" assessments calculated by Staff, the penalty amount to be paid by Electric Advisors is $100.

Electric Advisors' license permits it to broker non-residential customers at Baltimore Gas and Electric; Washington Gas Light; Columbia Gas of Maryland; and Chesapeake Utilities.

Briefly:

Maine PUC Grants Broker License to Early Bird Power

The Maine PUC granted Early Bird Power a license to operate as a competitive electricity provider furnishing aggregator/broker services to medium and large non-residential customers throughout Maine. Early Bird also received a Massachusetts electric broker license at the end of June and is active in several other Northeast markets. Founder Shaun Pandit was formerly director of origination and structuring for AES NewEnergy/Constellation NewEnergy.

CreativEnergy Options Receives Md. Broker License

The Maryland PSC granted CreativEnergy Options an electric broker license to serve non-residential customers at the four investor-owned utilities as well as Choptank Electric Cooperative and the Southern Maryland Electric Cooperative. CreativEnergy currently provides electricity broker services in Illinois and Texas and intends to offer services within California, Massachusetts, New York, and Pennsylvania. It recently obtained a Massachusetts broker license. To date CreativEnergy Options has served no customers in Maryland.

Del. PSC Orders Further Investigation of Delmarva Reasonable Allowance For Retail Margin

The Delaware PSC has delegated a hearing examiner to review Delmarva's application to increase the reasonable allowance for retail margin (RARM) included in SOS rates. An increase was approved on a temporary basis, subject to refund, in February, but the Commission said, "Staff [has] attempted to resolve certain issues with the Company, but has been unable to do so." The hearing examiner may conduct a hearing on the matter if necessary, the Commission said. The reasonable allowance for retail margin includes recovery of the incremental expenses Delmarva incurs in providing SOS and $2.75 million per year, and the case involves a true-up of such components. Delmarva's proposed true-up would result in an increase of $0.32 per month for an average residential customer using 1,000 kWh.

Direct Energy Wins Mass. Contract

Direct Energy was recently awarded several electricity contracts to serve Massachusetts state agencies, covering some 363 million annual kWh, via an online auction conducted by World Energy Solutions, in conjunction with Science Applications International Corporation. The 24-month contracts began July 1, with World Energy Solutions projecting that the contacts would deliver over $10 million in savings to the state.

CenterPoint Asks for Interim Approval of Revised Discretionary Charges

CenterPoint Energy asked the PUCT to approve on an interim basis effective August 1 its proposal to reduce several of its meter-related Discretionary Service charges to reflect the progressive reduction in costs resulting from advanced meter deployment (37105, Only in Matters, 6/15/09). CenterPoint made the request to ensure a uniform start date for the new charges, due to the timing of reviews by various municipalities which retain jurisdiction over the proposed tariff revisions. CenterPoint's motion is not opposed by PUCT Staff or the Texas Coast Utilities Coalition of Municipalities.

PUCT Approves Our Energy Amended Certificate

The PUCT approved an amendment to the REP certificate of Our Energy, reflecting new ownership (Matters, 6/26/09). The REP will now be led by Tanweer Ahmed, who is currently President of North Coast Couriers.

Calif. PUC Defers Consideration of Change to PG&E Dynamic Pricing Date to Rate Design Docket

The California PUC denied without prejudice a request to delay the implementation of default critical peak pricing rates for small and medium commercial and industrial customers at Pacific Gas & Electric from on (or before) February 1, 2011 to no sooner than February 2012. The Commission held that the issue should be reviewed in Pacific Gas & Electric's rate design window application (A. 09-02-022), rather than in a petition for modification of its August 2008 order approving the 2011 implementation date (Matters, 8/1/08). The delay request had been made by the Division of Ratepayer Advocates, the California Small Business Association and the California Small Business Roundtable.

Constellation Seeks Ontario Wholesale Licence

Constellation Energy Commodities Group has applied at the Ontario Energy Board for an electricity wholesaler licence to enable it to purchase and sell electricity or ancillary services in Ontario.

ePsolutions Announces Support for Oncor AMS, Advance Pay

Backoffice vendor ePsolutions said it now supports Oncor's new Advanced Metering System identification system, including advance pay provisions.

Delmarva, Dover Pursuing 10 MW Solar Project

The City of Dover, Delaware and Delmarva Power are finalizing agreements that would lead to the construction of a 10 MW, solar power plant on the city's Garrison Oak Technology Park. The Dover Sun Park would be owned by White Oak Solar Energy, LLC, an affiliate of LS Power, with Delmarva buying output through a PPA. In addition to Delmarva, the Delaware Municipal Electric Corporation and the state's Sustainable Energy Utility are also considering participation in the project. Delmarva said the plant would aid in meeting its RPS target. The city selected LS Power as a developer via an RFP.

MISO ... from 1

Currently, for facilities rated 345 kV and higher, twenty percent of the socialized share of interconnection RECB costs (i.e., the half not paid by generators) are allocated to all Midwest ISO pricing zones on a postage-stamp basis, and the remaining eighty percent is allocated among pricing zones using a Line Outage Distribution Factor (LODF) method. For facilities rated less than 345 kV, the entire socialized cost is allocated among pricing zones based on LODF. The LODF method results in the pricing zone where the new transmission facilities will be located seeing the highest costs, with costs diminishing with distance from that zone.

However, under the current rule, developers have sought to add to the northwestern MISO zones thousands of megawatts of new generation that vastly exceed the low loads in those zones, significantly increasing the costs to be recovered from customers in such pricing zones. For example, the Midwest ISO's interconnection queue currently has about 12,150 MW of requests in the Otter Tail and Montana-Dakota Utilities pricing zones, yet these two pricing zones combined have less than 1,350 MW of load.

Considering only very near-term projects, the Midwest ISO estimates that Otter Tail faces a 5,200% increase in its RECB charges, while Montana-Dakota Utilities faces an 826% increase in its RECB charges, absent a change in the rule. Including a broader view of projects shows that Otter Tail can expect a 9,500% increase in its RECB charges, and Montana-Dakota Utilities can expect an 2,600% increase, absent a change to the cost allocation provisions.

"Notably, these cost increases are associated with new generation that will not be serving Otter Tail and MDU customers," MISO said.

To correct this "inequitable" result, MISO proposed, as an interim solution, that for projects above 345 kV, interconnection costs will be paid 90% by developers (an increase from 50%), with only 10% of costs socialized system-wide on a postage stamp basis (rather than split between postage stamp and LODF). Interconnection projects under 345 kV will be paid for entirely by developers.

While MISO considered assigning more costs on a postage stamp basis, rather than to developers, it said greater system-wide socialization would merely move the cost increase problems faced by local pricing zones to additional zones. Allocating all of an interconnecting generator's resulting Network Upgrade costs on a postage-stamp basis, "may further insulate generators from the economic consequences of their siting decisions," MISO added.

MISO dismissed any concern that its proposed cost allocation could impede the development of renewable resources. The increase from a 50% cost share to a 90% share (for facilities at or above 345 kV) or a 100% share (for facilities below 345 kV) is likely to increase the typical wind farm's overall project cost by no more than 5%, MISO said.

Moreover, paying a higher share of costs is preferable for developers than having various utilities exit MISO, potentially making access to wind resources more difficult. If Otter Tail and Montana-Dakota Utilities withdraw, MISO noted, generation developers interconnecting in their service territories will bear more of the costs of associated network upgrades than they would under the MISO's instant proposal, as customers could have to pay all costs for upgrades above 345 kV, rather than 90%.

MISO noted that if its change is not approved, it could set off a series of transmission owner exits from MISO. The withdrawal of Otter Tail and Montana-Dakota Utilities would likely prompt additional transmission owners to leave, MISO said, since there would be a dwindling base from which to share costs.

Md. POR ... *from 1*

AOBA similarly said that POR implementation costs may only be judged in a full rate case.

OPC also opposed any extension of the receivables purchased to include charges other than basic supply service, contending that suppliers' demand response and energy efficiency charges should not be included in POR.

"Finally, if the Commission approves such surcharges, the utilities should be required to label the surcharge with a clear and transparent name - for example - 'Supplier Expense Recovery Surcharge,' and provide ratepayers with a clear and transparent explanation that they are being billed to cover costs of the suppliers that are now an obligation of the ratepayers," OPC added.

OPC also urged the Commission to reject Baltimore Gas and Electric's petition to earn a return on its POR implementation activities.

The Commission is holding a hearing on the utilities' compliance plans today.