Energy Choice Matters

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CL&P Says Suppliers Should Disclose Standard Service Rate in Marketing, Contracts/TPVs

Connecticut Light and Power has proposed that the DPUC should require competitive electric suppliers and aggregators to include a series of statements in their sales scripts to minimize customer confusion and dispel any misrepresentation, in responding to interrogatories from the Department. Among CL&P's recommended declarations is a statement of the Standard Service rate.

As only reported by *Matters*, the DPUC is reviewing supplier marketing issues. United Illuminating has said it does not believe any additional action from the DPUC is warranted with respect to supplier marketing (Matters, 8/11/09)

In addition to marketing pitches, CL&P said that its disclosures should also be included on third party verifications of customer enrollment or any contract signed by the customer.

Specifically, CL&P proposed that suppliers state the following:

• "I am from ABC Company and I represent XYZ Supplier" or "I am from ABC Company and will work with you to find an electric supplier to meet your electricity needs".

• "I do not work for, nor am I affiliated with CL&P (or UI)".

• "Are you authorized to make decisions regarding enrolling with an electric supplier?"

• "The current Standard Offer price is $0.xxxx per kWh."

• "The price of this offer is $0.xxxx per kWh."

• "This price is good for the term of xx months/years or this price is subject to change without notification."

• "If you return to CL&P (or UI) or switch to another electric supplier before the end of your contracted term, XYZ Supplier will/will not assess a penalty based on (provide penalty calculation)."

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Relying on QSEs for High Offers Not a Reliable Method of Scarcity Pricing, ERCOT IMM Says

Although net revenue available to new peaking generation in ERCOT in 2008 exceeded net revenue requirements to support market entry, the results were driven by market design inefficiencies that do not support an investment decision for new gas turbines and combined-cycle units, ERCOT's Independent Market Monitor, Potomac Economics, said in a state of the markets report. "More reliable and efficient shortage pricing could be achieved by establishing pricing rules that automatically produce scarcity level prices when operating reserve shortages exist," Potomac said.

Potomac estimated that the net revenue required to satisfy the annual fixed costs (including capital carrying costs) of a new gas turbine unit ranges from $70 to $95 per kW-year. The estimated net revenue available in ERCOT in 2008 for a new gas turbine was approximately $120, $113 and $61 per kW-year in the South, Houston and North Zones, respectively.

For a new combined cycle unit, Potomac estimated the net revenue requirement at $105 to $135 per kW-year. The estimated net revenue in ERCOT in 2008 for a new combined cycle unit was approximately $191, $185 and $124 per kW-year in the South, Houston and North Zones, respectively.

However, "significant portions" of these net revenues can be attributed to anomalous market-design related inefficiencies rather than fundamentals, Potomac said.

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Several Retail Suppliers Make Inc. 500/5000 List

Several privately held retail energy suppliers, brokers, and curtailment service providers reported 2008 revenues as part of their inclusion on the Inc. 500/5000 list. Retailers, ranked by revenue, are below:

Company	2008 Revenue	Growth	Inc. 5000 Rank
Stream Energy	$825.6 million	1014.30%	198
U.S. Energy Services	$439.0 million	722.00%	341
Liberty Power	$302.6 million	202.40%	1,581
Stand Energy	$213.2 million	43.30%	4,178
BlueStar Energy Services	$193.3 million	1170.00%	160
StarTex Power	$187.5 million	3794.30%	30
U.S. Gas & Electric	$105.9 million	1003.70%	203
Commercial Energy of Montana	$77.5 million	363.30%	810
CPower	$30.8 million	245.30%	1,292

The growth metric shows the percentage revenue growth from 2005 through 2008, which is the basis for the Inc. ranking.

Stream Energy additionally noted that it estimates generating revenues of $925 million for 2009.

Conn. DPUC Draft Would Remove ACP Condition for REC Banking

A Connecticut DPUC draft decision which would implement the banking of RECs revises earlier proposed rules, and would allow suppliers and utilities to bank RECs even if they have met their RPS requirements through the use of alternative compliance payments in prior years (08-09-01).

As only reported in *Matters*, the originally drafted rules would have only allowed load serving entities to bank RECs if they had met their prior RPS goals exclusively through RECs (Matters, 6/8/09). Even though the compliance payment is a statutorily recognized compliance mechanism (and not a penalty), the earlier draft rules would have prevented LSEs which had used the compliance payment mechanism from banking RECs.

That restriction is removed in a draft decision issued yesterday. Retail suppliers had noted that the earlier restriction on REC baking, due to use of the compliance payment mechanism, was inconsistent with other REC banking rules in New England, upon which the DPUC says its proposed rules are based and meant to mirror.

The new draft retains the 30% limit on REC banking.

July Disconnections in ERCOT Steady versus Year-Ago

Disconnections for non-pay in ERCOT during July were on par with year-ago numbers, according to preliminary data filed by PUCT Staff. The numbers were provided by the TDSPs informally. Though accurate, they are subject to further checks and screening before they will be considered final.

Disconnects For Non-Pay

Completed	
June 2009	57,604
July 2009	88,754
Summer 2008	
June 2008	92,337
July 2008	88,798
Summer 2007	
June 2007	81,659
July 2007	92,399

Pepco Energy Services Protests BGE Customer List Petition

Pepco Energy Services opposed Baltimore Gas & Electric's proposal to make mass market customer lists available to competitive suppliers, claiming that such lists may harm competition (Only in Matters, 5/4/09). While it objected to the lists for various legal reasons, Pepco Energy

Services said that if the list were limited to residential customers, it would have no "business objection" to the lists.

Pepco Energy Services argued that BGE's customer list provisions are inconsistent with various provisions of COMAR, and agreed with the legal impediments to the proposal previously cited by the Apartment and Office Building Association (Matters, 7/17/09).

The thrust of Pepco Energy Services' objection is that BGE's proposal is "unfair" as Pepco Energy Services has already developed various sales channels, leads, and marketing campaigns to win load.

"Successful competitive suppliers such as PES have expended significant effort and cost to develop these resources. To the extent some competitive suppliers are more successful than others in signing customer load, it is at least in part because they have developed a competitive advantage in identifying potential customers as a result of significant investment of time and money," Pepco Energy Services said.

"It would be unfair as well as unnecessary to penalize the successful efforts of some competitive suppliers by now making this market information available to less adept competitors," Pepco Energy Services argued.

Briefly:

PUCO Extends Ohio Edison, CEI Switching Fee Stay to Other Governmental Aggregation Suppliers

The Public Utilities Commission of Ohio extended a stay on the imposition of switching fees at Ohio Edison and Cleveland Electric Illuminating to cover all customer accounts associated with a governmental aggregation, regardless of the retail supplier. In July, PUCO granted a stay of the imposition of the switching fees on Gexa Energy as the supplier of the Northeast Ohio Public Energy Council while the Commission considers NOPEC and Gexa's complaint regarding the switching fees (Only in Matters, 7/9/09). The two FirstEnergy utilities filed for rehearing of the stay, which PUCO mostly dismissed. However, PUCO did extend the stay to any suppliers serving a governmental aggregation, as it did not intend to provide a competitive advantage to NOPEC or Gexa by limiting the stay to them.

WMECO Files Basic Service Rates

Western Massachusetts Electric Company filed updated basic service rates for large customers for the three-month period beginning October 1, 2009:

Medium & Large Customer Basic Service Rates	
October 2009	7.454¢/kWh
November 2009	7.997¢/kWh
December 2009	9.133¢/kWh
Fixed Price Rate	8.210¢/kWh

Prices are for customers on Rates G-2, T-4, T-2, I-1, I-3, PR.

D.C. Issues NOPR on WGL Daily Balancing Petition

The District of Columbia PSC has instituted a rulemaking in formal case GT97-3 to consider Washington Gas Light's request to revise certain interruptible tariffs to implement daily balancing because WGL says competitive suppliers, "are not paying their fair share of interruptible balancing charges," under current rates (Matters, 7/13/09). As only reported by *Matters*, WGL is seeking to implement a daily nomination and delivery requirement for all interruptible delivery volumes, making competitive suppliers directly responsible for shortfalls of deliveries during curtailment, and more clearly delineating the responsibility of an interruptible customer when notice of curtailment or interruption is provided by WGL. The proposed daily balancing regime is currently used in Maryland and Virginia.

RESA Defends Choice in Full-Page MACO Ad

The Retail Energy Supply Association has taken out a full page ad in the program for the summer Maryland Association of Counties conference, which in the past two years has served as a venue for Gov. Martin O'Malley to push a re-regulation agenda. The ad notes that the Maryland state government has saved over $50 million since 2004 through energy competition, with local county governments and businesses saving even more. RESA urges policymakers to support the continuation of commercial and residential choice.

Verde Energy Says Northeast Expansion Planned After Connecticut

Verde Energy USA, which has a pending application for a Connecticut electric supply license, said in an interrogatory response that it intends to expand operations to other states in the Northeast region following its Connecticut start-up (Matters, 6/17/09).

Gateway Energy Services Now Listed on WhiteFence

WhiteFence announced that Gateway Energy Services Corporation will now offer natural gas and electricity in New York; electricity in Texas; and natural gas in Ohio through WhiteFence.com's online utility comparison and service connection site.

Mass. DPU Approves WMECO Solar Settlement

The Massachusetts DPU approved a settlement which will allow Western Massachusetts Electric Company to install and own 6 MW of solar power, funded through a nonbypassable surcharge (Matters, 6/26/09). The DPU also held that energy from the plants could be used to satisfy, in part, the renewable portfolio standard requirement contained in G.L. c. 25A, § 11F. The Department, at this time, declined to establish a process to further review utility-owned solar installations through a statewide "pool" approach as suggested by WMECO and the Attorney General under the settlement.

FERC Approves $7.5 Million Amaranth Settlement

FERC approved a stipulation under which several Amaranth parties will pay $7.5 million to settle claims of market manipulation. The settlement resolves FERC and CFTC claims against several Amaranth affiliates and trader Matthew Donohoe. FERC's enforcement case against lead trader Brian Hunter is not part of the settlement and continues. Originally, FERC issued a show cause order against the Amaranth companies, Hunter and Donohoe seeking $291 million in penalties.

Ameren Energy Resources to Retire Two Units at Meredosia Plant

Ameren Energy Resources said that it will retire two of the four units at the 464-MW, primarily coal-fired Meredosia Plant in Morgan County, Illinois, as part of its continued efforts to reduce operating costs and restructure its merchant business in the face of depressed power prices. Ameren Energy Resources said it attempted to sell the Meredosia Plant along with the Grand Tower Plant and Hutsonville Plant (both in Illinois) this spring, but could not find an acceptable offer. Ameren Energy Resources will also operate the 511-megawatt, natural gas-fired combined cycle Grand Tower Plant only in May through September. In connection with the restructuring, Ameren Energy Resources said it will eliminate approximately 84 full-time, regular positions at the three plants.

Conn. ... from 1

CL&P said that it has received "numerous" complaints and concerns from customers regarding the marketing practices by aggregators and suppliers, reporting that since January 2009, approximately 100 accounts have been notated with customer complaints/concerns regarding supplier or aggregator marketing practices. CL&P has about 1.2 million accounts total (0.00008%), of which 134,000 take competitive supply (0.0007%).

CL&P said that many customers have stated marketers have claimed to be from CL&P or affiliated with CL&P, or have contacted the customer regarding the "CL&P savings program".

"There have been some instances reported by CL&P representatives where marketers have called CL&P with the customer on the phone and the marketers pretended to hang up while the customer remained on the phone to obtain account information; or the marketer has misrepresented themselves as the customer of record," CL&P said.

CL&P representatives have also reported that many customers were surprised to find that they had switched suppliers. "Customers have claimed they were asked for their account number and name key while requesting additional information from a marketer only to later find they had been enrolled with a new supplier. In many instances customers reported that the marketer had obtained the customer's information from someone other than the customer of record or someone authorized to make a decision to enroll with or switch electric suppliers," CL&P said.

In addition to the annotations, CL&P's Supplier Relations Group has processed hundreds of requests from customers to return to their previous supplier.

According to CL&P, "[t]here are two reasons these requests were made by the customer.

1. The customer was unaware they had signed up with a new supplier,

2. They customer confirmed they had signed up with a new supplier, but upon being informed of an early termination fee being imposed by their existing supplier wanted to back out of the new enrollment."

ERCOT ... *from 1*

For example, much of the price excursions supporting the net revenues were driven by inefficient congestion management techniques that have since been corrected and are not expected to materialize in the future, especially upon implementation of the nodal market, Potomac noted.

Additionally, in 2008 the ERCOT Protocols provided for ex post re-pricing provisions in intervals in which non-spinning reserve prices were deployed that frequently resulted in scarcity-level prices at times when ERCOT's operating reserve levels were not deficient. These rules were recently changed, thereby reducing the probability of scarcity-level prices during non-scarcity conditions going forward.

"Absent these inefficiencies, net revenues would not have been sufficient to support new peaker entry in 2008," Potomac found.

Potomac further cited two issues of continuing concern which may mitigate scarcity pricing even under scarcity conditions.

First, a continued strong positive bias in ERCOT's day-ahead load forecast tends to regularly commit online resources in excess of the quantity required to meet expected demand and operating reserve requirements, which will generally lead to an inefficient over-commitment of resources and to the depression of real-time prices relative to a more optimal unit commitment.

Second, the dependence on market participants to submit offers at or near the offer cap to produce scarcity prices during legitimate shortage conditions, "was generally not a reliable means of producing efficient scarcity prices during shortage conditions in 2007 and 2008," Potomac added.

For 103 shortage intervals in 2008, balancing energy prices ranged from $105 per MWh to the offer cap of $2,250 per MWh, with an average price of $534 per MWh and a median price of $293 per MWh. The results in 2008 are similar to those in 2007 when there were 108 shortage intervals with an average price of $476 per MWh and a median price of $299 per MWh. The majority of prices reflect the marginal cost of the most expensive generation resource dispatched as opposed to the value of foregone operating reserves, Potomac said.

Nevertheless, despite the mixed and widely varied results of the scarcity pricing mechanism, Potomac noted that private investment in generation capacity in ERCOT has continued, although such investment has been dominated by baseload (non-natural gas fueled) and wind generation. Such investments are driven by significant increases in natural gas prices in recent years, with ERCOT market prices producing sufficient net revenues to support such investment for the past several years. In contrast, private investment in mid-merit and peaking resources in ERCOT has been relatively thin.

Potomac said that more reliable and efficient shortage pricing could be achieved by establishing pricing rules that automatically produce scarcity level prices when operating reserve shortages exist. "Such an approach would be more reliable because it would not be dependent upon the submission of high-priced offers by small market participants to be effective. It would also be more efficient during the greater than 99 percent of time in which shortage conditions do not exist because it would not be necessary for small market participants to effectively withhold lower cost resources by offering at prices dramatically higher than their marginal cost," Potomac said.

Competitive Performance

Potomac found that the ERCOT market

performed competitively in 2008.

The pivotal supplier analysis showed that the frequency with which a supplier was pivotal in the balancing energy market remained relatively constant in 2008 compared to 2007, at less than 11 percent of hours.

Although 2008 exhibited a higher average incremental "output gap" at the highest load levels, the overall magnitude remains small and does not raise significant economic withholding concerns, Potomac said. The output gap is defined as the quantity of energy that is not being produced by in-service capacity even though the in-service capacity is economic by a substantial margin. Aside from being small, the output gap is higher for small market participants than for large participants (the latter of which are more likely to possess market power). Therefore, the results do not raise competitive concerns, Potomac said.

Large suppliers also have derating and outage rates that are lower than those of small suppliers across the entire range of load levels. Furthermore, large suppliers' deratings and outages generally decline as load levels increase. Given that the market is more vulnerable to market power at the highest load levels, these derating patterns do not indicate physical withholding by the large suppliers, Potomac added.

Potomac reported that balancing energy market prices were 37 percent higher in 2008 than in 2007 ($77.19/MWh versus $56.35/MWh) with May and June 2008 showing the largest increases from the same months in 2007. The average all-in price for electricity was $58.47/MWh in 2007 and $80.97/MWh in 2008, an increase of 38.5 percent.

Aside from an average 28 percent increase in the price of natural gas, ERCOT attributed higher 2008 electric prices to severe transmission congestion, static supply and demand characteristics, and transitory price spikes caused by the intermittency of wind.

The average ancillary service cost per MWh of load increased to $3.07 per MWh in 2008 compared to $1.46 per MWh in 2007, an increase of more than 110 percent. However, while the all-in wholesale costs increased by more than 38 percent in 2008 compared to 2007, ancillary service costs accounted for only 2.8 percent of the increase in all-in wholesale power costs in 2008 over 2007.

Overall uplift costs for Reliability Must Run units, Out of Merit Dispatch (OOME) units, Out of Merit Capacity (OOMC)/Local Replacement Reserve Service (RPRS) and Zonal RPRS units were $217 million in 2008, which is a $20 million increase over the $197 million total in 2007. OOME Down costs accounted for the most significant portion of the change in 2008, increasing from $49 million in 2007 to $78 million in 2008. OOMC/Local RPRS costs increased from $50 million in 2007 to $60 million in 2008, and RMR costs decreased from $33 million in 2007 to $20 million in 2008

Potomac estimated that, under the nodal market's more efficient congestion management, the annual average balancing energy market price in the Houston and South Zones in 2008 would have been reduced by approximately $10.42 per MWh. Assuming that only 5 to 10 percent of customers in the South and Houston Zones were directly affected by the significant price increases in the balancing energy market and short-term bilateral markets associated with the North-to-Houston and North-to-South congestion, Potomac's analysis indicated that the efficiencies of the nodal market, had it been in place, could have reduced the annual costs for customers by $87-$175 million in 2008. The analysis only includes benefits specific to the North-to-Houston and North-to-South congestion, and does not include more general congestion management benefits under nodal.