Energy Choice Matters

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# Illinois Power Agency Files to Solicit Long-Term PPAs Bundling RECs, Energy

The Illinois Power Agency has proposed soliciting long-term supply contracts from renewable energy providers that are cost-of-generation based as part of a final proposed procurement plan filed with the Illinois Commerce Commission (First in Matters, 8/19/09).

"Long Term PPAs can serve as a hedge against potential cap and trade legislation that would serve as an additional tax on fossil fuel costs. Further, grants, loans and credit enhancement available currently from US Department of Energy, Department of Commerce and Economic Opportunity and the Illinois Finance Authority will result in lower cost renewable energy projects that are developed now through the end of 2012 due to the public grants and financing," the IPA said.

The Illinois Attorney General and Illinois Wind Energy Association, among others, have pushed for bundled long-term renewable contracts.

As neither the cost liabilities nor the availability of other hedging options associated with cap and trade are known, the IPA proposed to limit the use of renewable PPAs in the Commonwealth Edison portfolio to 1,400,000 MWh per annum starting as early as the 2011-2012 planning year. The PPAs would be limited to 600,000 MWh per annum in the Ameren portfolio starting as early as the 2011-2012 planning year. The use of a megawatt-hour goal for the long-term contracts is due to the variable output nature of some renewable assets that may be selected through the solicitation process (i.e. wind, solar). IPA said the targets represent 3.5% of annualized load at each utility.

The IPA recommended that PPA bids be evaluated through a process similar to that used to

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# PUCT Staff Proposes $15,350/MW Panhandle CREZ Collateral Requirement

Generation developers in Panhandle Competitive Renewable Energy Zones (CREZ) would be required post collateral of $15,350 per megawatt to demonstrate a financial commitment if the CREZ cannot meet other financial commitment criteria, under a draft proposal for adoption filed by PUCT Staff (34577).

Financial commitment could be demonstrated by (1) the capacity of installed generation located in the counties contained in whole or in part in a CREZ; (2) generation under construction that will be online within six months; (3) generation with signed interconnection agreements; or (4) collateral.

Staff expects that for the Panhandle, the capacity under the first three conditions will be insufficient to meet the financial commitment threshold of 50% of the capacity of the CREZ, and said that collateral posting will likely be needed to demonstrate financial commitment. If the sum of the deposits meets or exceeds 5% of the estimated transmission costs for the transmission facilities necessary to serve the Panhandle CREZs, the financial commitment requirement will be satisfied.

Under the proposed rule, the Commission would find that current renewable generation and generation with signed interconnection agreements in the three southern CREZs (McCamey, Central, and Central West) show the requisite financial commitment, with no other commitment required. The proposal would also find that the financial commitment requirement for all default and

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# PUCT Staff Posts Final Non-Volunteer POLR Designations

PUCT Staff issued final selections of large service providers (non-volunteer POLRs) for the remainder of the 2009-2010 term. Staff released a list of voluntary POLRs as well. By rule, up to 15 REPs shall be designated as non-volunteer POLRs based on those with the greatest market share (by sales) in each customer class for each service area (AEP Texas Central and Sharyland combined). For a REP to be eligible as a non-volunteer POLR, the sum of the numeric portion of the REP's percentage of ESI IDs served and percentage of retail sales by MWhs in the POLR area, for the particular class, must be equal to or greater than 1.0 (among other requirements).

## 2009-10 Non-Volunteer POLR Designations

**BOLD:** Responsible for EFL ~~Strikethrough~~: Deletion from prelim. list Red: Addition from prelim. list

### Residential

| Oncor | CenterPoint | TNMP | AEP North | AEP Central/Sharlyand |
|---|---|---|---|---|
| Ambit Energy | Accent Energy | Direct Energy | Accent Energy | Ambit Energy |
| Direct Energy | Ambit Energy | **First Choice Power** | Ambit Energy | **CPL Retail** |
| First Choice Power | Direct Energy | Gexa | First Choice Power | First Choice Power |
| Gexa | First Choice Power | Green Mountain | Gexa | Gexa |
| Green Mountain | Gexa | Reliant Energy | Reliant Energy | Just Energy |
| Reliant Energy | Green Mountain | Stream Energy | Spark Energy | Reliant Energy |
| Stream Energy | **Reliant Energy** | TXU Energy | Stream Energy | Stream Energy |
| **TXU Energy** | Spark Energy | | TXU Energy | TXU Energy |
| | Stream Energy | | **WTU Retail** | |
| | TXU Energy | | | |

### Small Non-Residential

| Oncor | CenterPoint | TNMP | AEP North | AEP Central/Sharlyand |
|---|---|---|---|---|
| Champion Energy | Champion Energy | Champion Energy | Champion Energy | Champion Energy |
| Cirro Energy | Constellation NewEnergy | Constellation NewEnergy | Cirro Energy | **CPL Retail** |
| Constellation NewEnergy | Direct Energy | Direct Energy | Constellation NewEnergy | First Choice Power |
| Direct Energy | First Choice Power | **First Choice Power** | First Choice Power | Gexa |
| First Choice Power | Gexa | Gexa | Gexa | Just Energy |
| Gexa | Green Mountain | Green Mountain | Hudson Energy | Reliant Energy |
| Green Mountain | Just Energy | Just Energy | Just Energy | Strategic Energy (Direct) |
| ~~Hudson Energy~~ | **Reliant Energy** | Reliant Energy | Reliant Energy | TXU Energy |
| Reliant Energy | StarTex Power | Strategic Energy (Direct) | Strategic Energy (Direct) | |
| Strategic Energy (Direct) | Strategic Energy (Direct) | Tara Energy | Stream Energy | |
| Stream Energy | Tara Energy | TXU Energy | TXU Energy | |
| Tara Energy | TXU Energy | | **WTU Retail** | |
| **TXU Energy** | | | | |

### Medium Non-Residential

| Oncor | CenterPoint | TNMP | AEP North | AEP Central/Sharlyand |
|---|---|---|---|---|
| Champion Energy | Champion Energy | Champion Energy | Champion Energy | Champion Energy |
| Cirro Energy | Constellation NewEnergy | Constellation NewEnergy | Cirro Energy | Constellation NewEnergy |
| Constellation NewEnergy | Direct Energy | Direct Energy | Constellation NewEnergy | CPL Retail |
| Direct Energy | First Choice Power | First Choice Power | First Choice Power | First Choice Power |
| Gexa | Gexa | Gexa | Gexa | Gexa |
| Green Mountain | Green Mountain | **Reliant Energy** | Hudson Energy | Just Energy |
| Hudson Energy | Hudson Energy | Strategic Energy (Direct) | **Reliant Energy** | **Reliant Energy** |
| Integrys Energy | Integrys Energy | Suez Energy | Spark Energy | Strategic Energy (Direct) |
| **Reliant Energy** | **Reliant Energy** | TXU Energy | Strategic Energy (Direct) | ~~Suez Energy~~ |
| Spark Energy | Spark Energy | | Suez Energy | TXU Energy |
| Strategic Energy (Direct) | Strategic Energy (Direct) | | TXU Energy | |
| Suez Energy | Suez Energy | | WTU Retail | |
| TXU Energy | TXU Energy | | | |

## Large Non-Residential

| Oncor | CenterPoint | TNMP | AEP North | AEP Central/Sharlyand |
|---|---|---|---|---|
| Champion Energy | Champion Energy | ~~Champion Energy~~ | AEP Texas C&I Retail | AEP Texas C&I Retail |
| **Constellation** | Constellation NewEnergy | Constellation NewEnergy | Champion Energy | Champion Energy |
| Direct Energy | Direct Energy | Direct Energy | Constellation NewEnergy | Constellation NewEnergy |
| Integrys Energy | **Reliant Energy** | First Choice Power | Gexa | CPL Retail |
| Luminant Energy | Sempra Energy | Hudson Energy | **Reliant Energy** | Gexa |
| Reliant Energy | Strategic Energy (Direct) | **Reliant Energy** | Sempra Energy | **Reliant Energy** |
| Sempra Energy | Suez Energy | Sempra Energy | Strategic Energy (Direct) | Sempra Energy |
| Strategic Energy (Direct) | TXU Energy | Strategic Energy (Direct) | TXU Energy | Shell Energy |
| Suez Energy | | Suez Energy | WTU Retail | Strategic Energy (Direct) |
| TXU Energy | | TXU Energy | | TXU Energy |

The only volunteer POLR is TXU Energy, which volunteered for all customer classes except the large non-residential class in all service areas, and the residential class in the Oncor territory.

## Brattle Report Says Day 2 MISO Market Reduces Costs by $172 Million Annually

Moving from a day 1 market to a day 2 market has produced $172 million in annual savings in the operation of the Midwest ISO's generating plants, the Brattle Group found in an analysis prepared for the Compete Coalition.

Brattle compared production at all 302 large power units in MISO that operated throughout the sample period of December 1999 through November 2007.

Brattle said that power production costs declined by an average of 1.35% going from Day 0 to Day 1, and 2.61% from Day 1 to Day 2, or almost 4% overall. Applying this to the entire RTO, the annual savings in fuel and $SO_2$ costs in MISO is about $261 million per year between Day 0 and Day 2 (based on 2007 data), with approximately $172 million of that annual savings attributable to the change from Day 1 to Day 2.

The estimated MISO-wide savings of $261 million per year in fuel and $SO_2$ costs associated with the full transition from Day 0 to Day 2 is greater than the $227 million "adder" that MISO charged to recover its 2007 operating costs (of which $127 million was for market facilitation, monitoring, and compliance services and $94 million was for scheduling, system control, and dispatch), Brattle reported.

Constrained zones in MISO saw smaller or negative savings due to the inability of other supplies to compete due to transmission constraints.

While Brattle only studied plants in operation for the entire study period, Brattle noted that it is possible that centralized market designs lead to the choice of more cost-effective technologies for new generating plants and more efficient use of those plants. Brattle used a consistent set of plants to focus entirely on efficiencies that may arise from the improved coordination of plant usage, rather than efficiencies arising from new plant additions or changes in plant ownership.

Brattle said that the results do not constitute a complete benefit-cost analysis of wholesale or retail competition in the power industry. "To do this, we would need to consider the costs associated with alternative market designs, longer-term product (or capacity) markets, and other public and private benefits and costs. Nevertheless, our results show that the short-run production efficiencies that have long been associated with centralized markets and power pools provide a substantial cost savings to the region," Brattle said.

The Compete Coalition noted that, "utilities are increasingly recognizing the benefits of the RTO structure and are joining competitive markets in growing numbers," citing the decisions of Dairyland Power, MidAmerican Energy, and Iowa municipal utilities in Cedar Falls and Muscatine to join MISO.

"We perhaps couldn't find a more compelling validation of the value of markets than the fact that municipal utilities and cooperatives, whose national trade organizations are at the forefront of efforts to roll back competitive reforms, have chosen to join Midwest ISO and Southwest Power Pool in recent months," said Compete

Executive Director Joel Malina.

## DPUC Denies Northeast Utilities' Code of Conduct Waiver Request

The Connecticut DPUC denied a request from Northeast Utilities Service Company (NUSCO) to waive the affiliate code of conduct.

Because no affiliate of Connecticut Light and Power serves retail load in Connecticut or responds to CL&P's RFP to provide Standard Service and Last Resort Service, NUSCO said a code of conduct is unnecessary, and requested a waiver given the limited competitive operations remaining under the Northeast Utilities Enterprises holding company.

Specifically, NU's Select Energy is engaged in a single power purchase and sales agreement in Connecticut, and has a sales contract serving a group of municipal agencies in upstate New York.

However, the DPUC said that the code of conduct regulations do not include waiver provisions; therefore no waiver can be granted. Additionally, neither the statute nor its implementing regulations include a provision whereby the Department can conclude that Northeast Utilities Enterprises' operations have become so de minimis as to no longer constitute electric generation services provided by a "generation entity or affiliate," as that term is defined at Conn. Gen. Stat. § 16-1(34).

## PJM Files RPM Credit Changes to Prevent Requirement from Falling to Zero

PJM submitted tariff revisions at FERC to ensure that the credit requirement for the next RPM auction, scheduled for January 2010, is not at set at zero, as would occur under the current tariff provisions.

PJM explained that credit requirements used to date were based on simulated market outcomes of potential inter-year price volatility. Under these existing provisions, the RPM credit requirement has averaged $22,217 per megawatt of offered capacity pre-auction and $13,544 per megawatt of committed capacity post auction.

The tariff provides that after three Incremental Auctions have been conducted for any Delivery Year, the Maximum Price Exposure factor used in determining credit requirements shall be reduced to the extent the greatest percent price increase for a given Delivery Year (as measured between any Incremental Auction and its associated Base Residual Auction) was less than the value initially calculated.

However, clearing prices in the Incremental Auctions have been consistently lower than those in the Base Residual Auctions. Indeed, the "greatest percent price increase . . . between any Incremental Auction and its associated Base Residual Auction," as called for by the tariff, has been zero, i.e., no increase at all.

"Consequently, the current provisions in Attachment Q would establish a zero credit requirement for the next RPM auction, scheduled for January 2010, and possibly for other Incremental Auctions thereafter," PJM said.

"[A] zero credit requirement would be contrary to the purpose of the RPM credit requirement to encourage future physical performance and, in fact, may act as a disincentive to performance. If the owner of a planned resource need not post any credit to back up its offered commitment of the resource for a Delivery Year, and the planned resource is then delayed or cancelled, the owner could simply walk away from its commitment, forcing PJM to pursue collection of penalties or the cost of replacement capacity through the court system," PJM said.

PJM proposed to revise the credit requirement such that it is based on the net penalty for failing to meet RPM commitments (which is the greater of 0.2 times the Resource Clearing Price or $20/MW-day). Such a credit requirement represents the likely maximum RPM cost exposure from a planned resource that fails to deliver, as faced by the developer, and thus by PJM members in the event of default, PJM said.

PJM is also proposing that the Auction Credit Rate for resources committed in auctions that have already taken place can be decreased, but not increased, by the proposed rule changes. With only one exception, the proposed rules would reduce the ongoing credit requirements for resources committed in any auction for the current or any future Delivery Year.

# PJM Proposes Financing Provision to Aid Munis with Weekly Invoicing

PJM has proposed to offer financing to assist municipal electric systems in paying weekly invoices under certain conditions, in a filing at FERC.

PJM said that the proposal is designed to recognize the "operational limitations, political impediments and economic constraints unique," to municipal systems while at the same time ensuring that the financing is only used when a "need" truly arises, and not used in the ordinary course of business.

The aggregate of the financed amount and accrued obligations would be limited to the muni's Working Credit Limit to limit risk.

Financing will only be available when PJM has sufficient cash to meet its payment obligations in addition to providing financing.

## *Briefly:*

**Energy Transfer to Re-file for Option 2 REP Certificate**

Energy Transfer Retail Power withdrew is application for a REP certificate amendment reflecting a change in ownership of TexRep4 LLC, and said it intends to file a revised amendment application which would allow it to operate as an Option 2 REP (Only in Matters, 7/3/09).

**Acclaim Seeks Md. Electric Broker License**

Acclaim Energy applied for a Maryland electric broker license to serve commercial and industrial customers at the four investor-owned utilities, Choptank Electric Cooperative, and the Southern Maryland Electric Cooperative.

**Draft Would Grant First Choice Energy LLC Conn. License**

The Connecticut DPUC would grant First Choice Energy, LLC an electric aggregator certificate to serve commercial, industrial, municipal and governmental customers under a draft decision released yesterday (Matters, 7/23/09).

**Constellation Pegs Savings from Illinois Electric Choice at $1+ Billion**

Migrated Illinois electric customers have saved in excess of $1 billion since the market opened some 10 years ago, Constellation NewEnergy said in a conservative estimate. Constellation's figure was developed a few years ago, and compared the utility Power Purchase Option (which retailers essentially had to beat to win load) to the capped default service rates in place through December 2006. Since migration has increased since that time, the savings are likely larger, Constellation said. Constellation NewEnergy said it serves more than 2,500 customers in Illinois' private and public sectors.

**PUCT Staff Files Draft of New POLR TOS**

PUCT Staff have issued a draft proposal for publication to conform the standard POLR Terms of Service to recent amendments to Subst. R. §25.43 made by the Commission in Project Number 35769 (37034).

**JCP&L Solar REC Contracts Priced at $410/REC**

The average price from Jersey Central Power & Light's first competitive solicitation for long-term solar REC contracts produced an average winning price of about $410 per solar REC, with a low price of $369 per solar REC, the New Jersey BPU said yesterday. The BPU authorized JCP&L to award seven long-term contracts for a total of nearly 1.6 MW. One bid was not authorized for an award due to it being a non-competitive bid, the BPU said. The capacity procured was less than the BPU's goal, and an additional solicitation will be held in March 2010 for the capacity not procured in the first round. A separate solicitation will be held in December 2009 as well.

**PJM to Hold Symposium on Price Responsive Demand**

PJM will conduct a symposium November 9-10 to, "advance the ability of electricity consumers to adjust their use of electricity based on retail rates that change daily or hourly in response to wholesale market price signals." Symposium participants will, "identify timelines, challenges and changes for integrating price responsive demand into wholesale and retail markets," PJM said.

**NextEra Purchases 185 MW of Wind Capacity from Babcock & Brown for $352 million**

NextEra Energy Resources has entered into an agreement to purchase three operating wind projects with a combined capacity of 184.5 MW from Babcock & Brown for approximately $352 million. More than 80% of the total output from the three facilities is being sold under long-term contracts to creditworthy counterparties, NextEra said. The projects include the 79.5 MW Majestic Wind Energy Center located in Carson County, Texas (all output sold to SWEPCO under a PPA), the 54 MW Butler Ridge Wind Energy Center located in Dodge County, Wisconsin, and the 51 MW Wessington Springs Wind Energy Center located in Jerauld County, South Dakota.

## *IPA ... from 1*

evaluate bids in the short-term portfolio: standard terms and conditions regarding performance guarantees and penalties are agreed to by bidders prior to solicitation, bidders must pre-qualify to be allowed into the bidder pool, application of a cost benchmark to reject above market value bids, and scoring of submitted bids according to a methodology that considers and ranks proposals on the basis of output, capacity value, financing costs, transmission and capital costs, fixed cost vs. escalators offers, return on equity and other normalizing factors.

The IPA will also conduct REC-only solicitations to meet RPS requirements.

The default service requirements remaining after the PPAs and legacy swaps will still be procured through the three-year laddered (35-35-30) procurement as previously used and proposed.

The IPA also amended its proposal to incorporate demand response into the portfolio. The power agency had originally proposed a special fall procurement to acquire 500 MW of demand resources, but now recommends that demand response should be first specified as a bid alternate in the spring 2010 solicitation for capacity. Qualified demand response bids submitted in the spring procurement that are of lesser cost than comparable capacity sources will be selected as winning bidders. Demand response providers participating in the spring capacity solicitation would be allowed to bid on all months and volumes under the same terms and conditions as other suppliers.

If the spring procurement fails to attract demand resources, then the IPA will conduct a fall solicitation open only to demand response. The total volume of demand response capacity awarded in the fall procurement would not exceed, on a maximum contract volume basis, 500 megawatts in any given month. The fall procurement would seek five-year contracts with demand resources.

## *CREZ ... from 1*

priority lines has been met.

The $15,350/MW collateral amount was developed by Staff using the cost of transmission as suggested by Luminant in comments, and applying a 5% factor as proposed by several wind developers.

The Commission would specify in the rule that there will be a single proceeding to consider the levels of financial commitment in each of the Panhandle CREZs. The proposal for adoption would hold that the full collateral should be posted no later than 15 days after the Commission order approving the filing of the CCNs in the financial commitment proceeding becomes final, rejecting a suggestion to allow collateral to be posted in tranches.

The collateral would be required in the form of letters of credit, cash, or corporate guarantees. However, if the collateral is in the form of corporate guarantee, the Commission would require the depositor to change the collateral form if the creditworthiness of the guarantor becomes questionable.

Collateral posted by a generator would be returned after the generator has signed an interconnection agreement with a transmission service provider for the generator's CREZ projects.

Staff's draft would affirm that security constrained economic dispatch shall be the preferred methodology to dispatch resources and resolve congestion caused by excess development. Staff believes that security constrained economic dispatch will prevent excess capacity in the CREZs by sending correct market signals through prices to developers considering building new capacity. "In addition, the commission believes that reliance on SCED is more likely than a priority dispatch mechanism to resolve issues created by excess development in the long run as it will encourage and speed up the development of storage and possibly other technologies," the proposal for adoption states.