Energy Choice Matters

October 20, 2009

Houston School District Launches Affinity Program with Three REPs

Three retail electric providers have been selected via RFP by the Houston Independent School District (HISD) to participate in an affinity program under which the REPs will pay a per-customer fee to customer-selected schools in the district when customers enroll through the program.

Initial REPs participating in the "Power for Schools" program are Champion Energy Services, Affordable Power, and Ambit Energy. HISD encouraged additional REPs to learn about the program and said that it anticipates additional REPs will join the program.

Among other criteria, HISD screened REPs to ensure participating suppliers have the capability of continuing their operations and meeting the needs of their customers in trying economic times.

Under the program, the REPs offer "exceptionally competitive" rates to supporters of the schools, Champion said, and for each customer enrolling through the program, the REP will make a monthly contribution to the school of the customer's choosing. Customers must identify via a unique code the school they wish to direct the contributions to during enrollment. There is no additional cost to customers or the schools for joining the affinity program.

HISD said that it designed the program so that it can be expanded to other school districts across Texas as well.

According to a press release from HISD, the Wainwright Elementary School, which has approximately 700 students, would earn about $28,000 per year if every household signed up for the program. Assuming one student per household and no retainage kept by HISD, the per customer acquisition fee paid by REPs would be at least $40 annually.

Direct Says R.I. PUC Should Maintain Current Methodology for National Grid WACOG

The Rhode Island PUC should require National Grid to continue using a three-year moving average methodology for calculating the Weighted Average Cost of Gas. (WACOG), Direct Energy said, because a change to a forward-looking methodology will expose marketers to additional volatility

In testimony in Grid's annual gas cost recovery proceeding, Direct said that it was "surprised and concerned" by the significant change in Grid's pipeline capacity path rates for contractual paths available to marketers for annual assignment, as Direct noted that market costs have decreased considerably over the past year. In response to a Direct discovery request, Grid said that it has changed the methodology used to calculate the basis portion of the path costs.

A historical average methodology has been in place since the inception of the capacity release program. Instead of using a three-year moving average of annual costs, however, Grid filed rates using a one-year forward looking forecast of prices using the NYMEX strip from August 24, 2009.

Direct said that it was not notified of the change.

"Marketers rely on a consistent methodology in order to estimate costs used to price multiple year contracts for customers," Direct said.

Furthermore, Direct noted that absent a reconciliation of the forward-looking costs, using the one-year forecast could lead to the unwarranted subsidization of sales customers by transportation

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CL&P Reports September Migration

Electric Supplier Accounts as of 9/30/09	Sept. '09 Residential	Sept. '09 Business	Sept. '09 Total	Sept. '09 % of Migrated Customers	Change vs. Aug. '09 Total
CLEARVIEW ELECTRIC	3,410	705	4,115	2.5%	1,962
CONEDISON SOLUTIONS, INC.	3,383	1,741	5,124	3.1%	1,285
CONSTELLATION NEWENERGY	987	8,676	9,663	5.9%	189
DIRECT ENERGY BUSINESS LLC	111	1,590	1,701	1.0%	40
DIRECT ENERGY SERVICES LLC	33,735	5,935	39,670	24.1%	5,122
DISCOUNT POWER INC			0		0
DOMINION RETAIL INC	51,540	10,694	62,234	37.8%	563
ENERGY PLUS HOLDINGS LLC	593	11	604	0.4%	246
GEXA ENERGY CONNECTICUT, LLC	18	1,068	1,086	0.7%	121
GLACIAL ENERGY OF NEW ENGLAND	517	1,910	2,427	1.5%	97
GREEN MOUNTAIN ENERGY			0		0
HESS CORPORATION	524	1,842	2,366	1.4%	(42)
HORIZON POWER AND LIGHT LLC			0		0
INTEGRYS ENERGY SERVICES	35	3,113	3,148	1.9%	(20)
LIBERTY POWER HOLDINGS LLC	316	53	369	0.2%	334
MXENERGY ELECTRIC INC	2,532	1,895	4,427	2.7%	173
PEPCO ENERGY SERVICES, INC.		8	8	0.0%	0
PUBLIC POWER & UTILITY, INC	19,487	3,812	23,299	14.2%	1,005
SEMPRA ENERGY SOLUTIONS LLC	3	975	978	0.6%	(14)
SUEZ ENERGY RESOURCES NA	12	669	681	0.4%	(5)
TRANSCANADA POWER MARKETING	26	2,342	2,368	1.4%	(24)
VIRIDIAN ENERGY, INC	249	27	276	0.2%	275
WHOLE FOODS MARKET GROUP		2	2	0.0%	0
Total All Suppliers	**117,478**	**47,068**	**164,546**	100.0%	11,307

Aggregate Data

Customer Load - Suppliers and CL&P (MWh)

	Residential - SS		Business - SS		Business - LRS		Total CL&P Territory	
	MWh	% of Class	MWh	% of Class	MWh	% of Class	MWh	% of Total
Suppliers	102,281	12.5%	393,535	64.9%	450,506	91.2%	946,322	49.3%
CL&P	715,892	87.5%	213,188	35.1%	43,639	8.8%	972,718	50.7%
Total	818,173		606,723		494,145		1,919,040	

Customer Count - Suppliers and CL&P

	Residential - SS		Business - SS		Business - LRS		Total CL&P Territory	
	Customers	% of Class	Customers	% of Class	Customers	% of Class	Customers	% of Total
Suppliers	117,478	10.7%	46,205	39%	863	83.4%	164,546	13.5%
CL&P	979,255	89.3%	72,381	61%	172	16.6%	1,051,808	86.5%
Total	1,096,733		118,586		1,035		1,216,354	

SS = Standard Service   LRS = Last Resort Service

Data as reported by CL&P

Supplier, Broker Peg Current Savings in PPL at 10%

Current competitive offers for non-residential customers at PPL are in the 10% range, World Energy Solutions and Constellation NewEnergy separately said in evaluating the market.

World Energy Director of Sales Kenneth Antos told *Matters* that offers received from suppliers for non-residential customers (including all sizes and classes) are averaging 10% off the expected default rate, although supplier pricing varies widely depending on the customer's creditworthiness and load factor.

Constellation NewEnergy similarly said yesterday that non-residential customers may save an estimated 10-12% on electricity costs, citing Pennsylvania PUC market projections.

With PPL's 2010 default service providing an interim one-year price, Antos confirmed that much of the shopping is for 12-month contracts, although there is also interest in 24-36 month contracts, which carry a small risk premium, due to current favorable energy prices.

Antos reported that a dozen suppliers are participating in World Energy's auctions, a level of intensity which has made PPL the most contested service area in the state. Although World Energy is active in Duquesne, Penn Power and some of the smaller utilities (Citizens, Wellsboro, Pike County, UGI), Antos said that supplier interest is significantly lower in those uncapped territories, for various reasons (size, default service structure, RTO membership, etc.).

Briefly:

AGR Group Seeks Pa. Electric License

Customer acquisition specialist AGR Group applied for a Pennsylvania electric broker/marketer license to serve commercial customers above 25 kW, industrial customers, and governmental customers in all service areas.

Tradition Energy Receives D.C. Licenses, Seeks Ohio Electric License

The District of Columbia PSC granted TFS Energy Solutions (Tradition Energy) electric and natural gas broker licenses (Only in Matters, 7/6/09). Tradition also applied for an Ohio electric broker-aggregator license to serve commercial, mercantile and industrial customers in all service areas.

Direct Announces Marketing Agreement with Streetsboro, Ohio

Direct Energy announced that the City of Streetsboro, Ohio, has entered into a marketing agreement with Direct under which mass market customers may enroll for natural gas service with Direct at a price of $7.21 per mcf for the first six months (November 2009 bill cycles through April 2010 bill cycles) of the three-year program. There is also a discount for senior citizens. The "Direct Choice" program is separate from an existing municipal aggregation supply contract Direct has with Streetsboro, and customers must affirmatively enroll onto the Direct Choice product. Direct announced similar agreements with three other Ohio cities late last month (Only in Matters, 9/29/09)

Abacus Purchases REP Certificate for $75,000

Abacus Resources Energy, LLC purchased the REP certificate of Always Electric, LLC from ePsolutions for $75,000, Abacus reported in a supplement to its application for a certificate amendment to reflect the new ownership (Only in Matters, 9/30/09). As previously reported, Always, which was certified in April 2009, had no customers, and its value was derived from being licensed prior to new financial certification rules (and thus given until May 2010 to meet new standards), plus any internal structures and processes established for ERCOT retail testing.

Final Entergy-SPP Cost/Benefit Report due in July 2010

A preliminary report on the cost and benefits of Entergy joining the SPP RTO is expected by June 11, 2010, according to a timeline included in the final scope of the cost-benefit analysis. A final report is due by July 2, 2010. As previously reported, the study will analyze only: (1) the continued participation of all Entergy Operating Companies under the existing Independent Coordinator of Transmission services arrangement versus (2) the full membership of all Entergy Operating Companies, as well as Cleco Power, in SPP under the SPP OATT with SPP's Future Market Design in effect.

Doggett to Serve an Interim ERCOT CEO

ERCOT announced that H.B. "Trip" Doggett, currently COO of the grid operator, will serve as interim CEO, effective Nov. 2, while a search for a permanent successor to outgoing CEO Bob Kahn is underway. Doggett has served as senior vice president and COO at ERCOT since June 2008. He has more than 29 years of experience in the electric power industry, including seven years as an independent consultant in the ERCOT market, providing project management services related to market participant readiness for a nodal market in Texas. Doggett chaired the Texas Nodal Transition Plan Task Force from 2005 to June 2008, and also served as an independent facilitator for the Texas Nodal Team. ERCOT also announced that it will begin a search for a new independent board member to replace Mark Armentrout who announced he will not seek election to a third term.

FERC Defers CAISO BPM-Tariff Technical Conference

After several parties requested additional time to gain operating experience under the Market Redesign and Technology Upgrade, FERC deferred until further notice a technical conference that would provide parties with a final opportunity to identify any details in new or revised Business Practice Manual language developed after November 15, 2007, which parties believe should be included in the California ISO MRTU tariff (Matters, 9/16/09).

FirstEnergy Files Complaint to Avoid Costs of Existing PJM Reliability Projects for ATSI Load

FirstEnergy Service Company, on behalf of American Transmission Systems Inc. and various affiliates, filed a complaint at FERC regarding PJM's current cost socialization of reliability transmission projects, in an attempt to escape the otherwise applicable cost responsibility it would assume for certain transmission projects upon integration of the ATSI footprint into PJM.

FirstEnergy requested similar relief in its petition to join PJM, but is filing the section 206 complaint due to procedural opposition from some stakeholders to addressing the matter outside of a formal complaint case.

At issue is the difference between how members of the Midwest ISO and PJM have chosen to allocate socialized transmission costs. In MISO, cost allocation occurs once, and responsibility remains with a transmission owner after that initial allocation regardless of whether the transmission owner remains in MISO. Accordingly, ATSI will continue to pay for certain MISO reliability projects after its exits MISO. New MISO members are not assigned costs to any previously allocated reliability projects, and only assume cost responsibility for new projects socialized after they join the RTO.

In contrast, PJM reallocates its cost socialization among transmission owners annually. Accordingly, if a transmission owner leaves PJM, it is no longer responsible for transmission projects. Likewise, a new transmission owner is allocated costs of existing reliability projects upon joining PJM, in addition to any new projects approved after it joins the RTO.

The confluence of the two policies would thus require ATSI load to pay for both their legacy MISO costs and all PJM reliability project costs, including costs of projects approved prior to ATSI joining PJM. ATSI would thus pay both PJM and MISO for certain transmission reliability projects approved in the time period prior to joining PJM, which FirstEnergy claimed is not just and reasonable.

FirstEnergy called the current PJM policy, approved in the stakeholder process, a "flaw" which has been "revealed" by its intention to voluntarily leave MISO and join PJM.

FirstEnergy claimed that the PJM system, "give[s] existing transmission owners an artificial incentive to leave and potential members an artificial incentive not to join," since costs are reallocated annually. When ATSI first requested special cost treatment, however, various stakeholders said that granting FirstEnergy's carve-out request would destabilize RTOs.

Calif. Draft Would Open New RA Rulemaking, Consider Impacts of Potential for Greater Migration

The California PUC would institute a new rulemaking governing administration of the current resource adequacy (RA) program under a draft order posted yesterday. The proceeding would serve as a successor to R. 08-01-025, and would address the program for the compliance year beginning 2011.

Among other topics to be addressed in the proceeding are:

- Senate Bill (SB) 695 Impacts - Among other things, SB 695 prescribes the limited conditions under which retail end-use customers may acquire electric service from "other providers" in each electrical corporation's distribution service territory (Only in Matters, 10/13/09). The proceeding may explore whether any modifications to the resource adequacy program are required to give effect to SB 695.
- Standard Capacity Product (SCP) - D.09-06-028 deferred final consideration of the SCP to the instant proceeding. The proceeding shall consider adoption of the SCP and any associated changes to the resource adequacy program.
- Changes to RA in response to CAISO's Market Redesign and Technology Upgrade (MRTU) - If parties believe that changes to the resource adequacy program are appropriate to better coordinate with MRTU, parties should propose such changes in the instant proceeding.
- Local RA and Load Migration - D.09-06-028 adopted the principle of limiting local resource adequacy adjustments to actual load migration, but deferred the implementation of the issue to the instant proceeding.

The final determination of specific topics to be addressed will be left to the assigned Commissioner's discretion in the scoping memo, after the rulemaking is formally opened. Accordingly, the draft order initiating the rulemaking does not attempt to draw a bright line separating refinements to the existing program from fundamental program changes that are beyond the scope of the proceeding.

Texas Wind Generators File Appeal of Dismissal of Reactive Power Complaint

Texas Competitive Wind Generators appealed an ALJ's decision to dismiss their complaint regarding an ERCOT interpretation of reactive power requirements, arguing that alternative dispute resolution is not required before such a complaint may be brought before the PUCT. The Competitive Wind Generators included E.ON Climate & Renewables North America, Edison Mission Energy, and Horizon Wind Energy (Only in Matters, 10/12/09).

As only reported in *Matters*, an ALJ dismissed the complaint after finding that PUC Proc. R. § 22.251(c) requires use of the alternative dispute resolution process prior to filing an appeal, except for a showing of good cause. The ALJ further concluded that as the complaint relates mainly to expense rather than the provision of continuous and adequate service, good cause does not exist for an exception.

In their appeal, the wind generators offered various interpretations of the Substantive Rules and Commission orders showing that there is no requirement for the use of alternative dispute resolution prior to filing an appeal with the Commission.

Regardless, the wind generators further argued that an informal dispute resolution process undertaken in a four-month period during an abatement should satisfy the requirement, even though ERCOT's formal dispute resolution process was not used (which the wind generators said only meant that a formal request was never initiated, and that, practically, the process was the same).

The wind generators argued that good cause exists to waive any alternative dispute resolution requirement since the question in controversy impacts the, "fundamental design and competitiveness of markets." If ERCOT's protocol interpretation regarding reactive power is upheld, existing wind generators would be required to expend, "significant resources to retrofit generation that has been operating in the ERCOT market for many years to conform to this new ERCOT interpretation," the wind generators said. Such expense will mean that, as a class, wind generators, "will be less able to compete with conventional facilities in the marketplace because large expenditures for virtually all existing facilities will need to be made, and these units will have to be retrofitted and fundamentally changed in order to continue providing power to the ERCOT market," the wind generators argued.

At issue is a November 2008 Protocol Clarification/Interpretation issued by ERCOT, in which ERCOT said that the Protocols require a generator to have and maintain a Unit Reactive Limit (URL) with a power factor capability of +/- 0.95 at all levels of generation. The wind generators, however, claim that the Protocols hold that the minimum reactive capability is determined in proportion to the real power output of a generator.

Financial Marketers Seek Rehearing of Marginal Line Loss Refund Decision

Several financial marketers sought rehearing of a September FERC order which affirmed PJM's allocation of marginal line loss surpluses to participants who pay the fixed costs of the transmission grid, as the financial marketers said that the decision will lead to inefficient outcomes and potentially anticompetitive prices (EL08-14, Only in Matters, 9/18/09). The financial marketers included Black Oak Energy, LLC, EPIC Merchant Energy, LP, SESCO Enterprises LLC, Energy Endeavors LP, and Solios Power, LLC.

As only reported in *Matters*, FERC ruled that, "arbitrageurs or virtual traders that only pay for ancillary services do not support the fixed costs of the entire transmission system and should not be eligible to receive a share of the marginal line loss surplus."

The financial marketers said that the decision will subject (1) pure virtual transactions (i.e., those not involving an Up-To Congestion component), (2) approximately 70% of Up-To Congestion transactions, and (3) all exports from PJM to the Midwest ISO, to transmission line loss charges that are well in excess of the actual line losses incurred by PJM.

"It unfairly tilts the playing field, places virtual transactions at a severe competitive disadvantage to physical transactions (which virtual transactions are required to subsidize), and distorts the price signals that are intended to be provided by marginal line loss pricing," the financial marketers said.

The financial marketers argued that the extent to which a market participant contributes to the fixed costs of the transmission system, "says nothing about how that market participant's transactions affect transmission line losses."

"There is simply no nexus between transmission line losses and contributions to the fixed costs of the transmission system. Those who pay for the fixed costs of the transmission system do so in return for their use of the transmission system. Such market participants are not entitled to preferential treatment as to unrelated costs because of such contributions," the financial marketers added.

Furthermore, the financial marketers presented an affidavit from Dr. Jonathan Lesser which argued, among other things, that PJM's approved refund allocation will lead to economically inefficient outcomes. "By imposing an unjust tax and subsidy scheme on top of marginal line loss pricing, PJM's allocation scheme would exacerbate transmission line losses and potentially lead to anticompetitive bidding behavior by load-serving entities who will receive subsidies," the financial marketers said.

DC Energy, LLC and American Electric Power Service Corporation separately filed for clarification of FERC's order, opposing the Commission's decision to "retroactively" deny Network Users or Transmission Customers that export energy from the PJM region to the Midwest ISO credits relating to marginal line loss surpluses.

"If Requestors were not entitled to an Export Credit during the Refund Period, their power sales activities during the period would likely have been substantially different, and the economics of the Requestors' transactions would be adversely affected if the condition is given retroactive effect," DC Energy and AEP noted.

PJM submitted a compliance filing conforming its tariffs to FERC's September order, and requested an extension until April 1, 2010, to process refunds under the order due to required software upgrades to calculate the refunds.

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customers, or vice versa. Even with a reconciliation, the forecast methodology suffers from defects, Direct added.

Chief among these problems is that a forecast methodology, "will likely result in more volatility in the costs from year to year and there is a good chance it will not reflect actual basis costs experienced throughout the year as any deviations in weather compared to normal will impact market prices and basis on the various paths into New England," Direct noted.

Additionally, the paths in Grid's service territory contain illiquid points, Direct said, meaning any forecast is likely to be wrong for a given marketer on day one.

A volatile basis calculation would thwart marketers' hedging and risk management practices to reduce volatility in their customers' rates, Direct explained.

"Year to year price volatility likely will result in unforeseen increases or decreases in WACOG and the associated path costs, and make it more difficult for marketers to forecast costs and manage the risks of multiple year contracts with their customers," Direct said.

"The added risk of a multiple year contract will take these choices away or make them more expensive for customers, and may result in driving customers out of the competitive market altogether as they will limit the value a marketer can offer a customer."

Accordingly, Direct recommended that Grid continue to use the three-year moving average method to calculate the 2009-10 WACOG.

Direct also raised concern that the hedging costs for sales customers may be included the basis portion of the WACOG, stating that is unclear that such costs are not in the WACOG. Direct is awaiting a discovery response from National Grid to further understand the calculations.