Energy Choice Matters

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Central Hudson Says Releasing Capacity at WACOC Could Create Subsidies

Releasing capacity at the system weighted average cost of capacity (WACOC) could result in subsidies between full service and retail access customers, Central Hudson Gas & Electric said in rebuttal testimony in its current rate case (09-G-0589 et. al., Only in Matters, 11/27/09).

As only reported in *Matters*, New York PSC Staff had recommended requiring Central Hudson to release capacity to marketers participating in the company's retail access program at Central Hudson's system WACOC, citing FERC Order 712. Staff has argued that releasing capacity at the WACOC would be administratively simpler than the current method of releasing capacity at the upstream interstate pipeline's maximum FERC approved rate, with surcharges or credits applied to firm transportation customers' bills for differences between the system WACOC and the cost of capacity associated with the released pipeline capacity through a Capacity Assignment Adjustment (CAA).

However, Central Hudson countered that, "in contrast to the current Commission-approved procedures followed by the Company, the WACOC will not be applied consistently to all firm gas customers (excluding those ineligible to participate in the Company's Retail Access Program)." Such an unequal application creates, "the potential for both subsidies between full service and retail access customers and collection of amounts different from actual capacity costs incurred," Central Hudson said.

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Macquarie to Purchase Integrys Energy Services Wholesale Power Trading Business

Integrys Energy Services announced yesterday that it has signed an agreement to sell substantially all of its wholesale electric marketing and trading business to Macquarie Cook Power, Inc. for an undisclosed sum.

The transaction encompasses various power transactions, including physical forwards, financial derivatives, capacity, and transmission rights. This portfolio of transactions had an annual average total gross volume in excess of 125 million megawatt-hours over the past three years. The sale does not include or directly affect the retail electric or natural gas marketing business operated by Integrys Energy Services.

Macquarie said that the acquisition will approximately double the customer base and scale of its existing power trading business, while strengthening its position across key North American power markets.

"The Integrys Portfolio is particularly attractive for our energy markets activities in North America. It expands our volumes and penetration across a number of major power markets on the continent, making us even more relevant to both existing and new customers," said Nicholas O'Kane, Executive Director and Global Head of Macquarie's Energy Markets Division. Macquarie also touted the sale as including a diverse portfolio of wholesale electric trading positions with a range of high quality counterparties.

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ICC Approves Long-Term Contracting as Part of Procurement Plan

The Illinois Commerce Commission has approved the procurement plan of the Illinois Power Agency, with modifications relating to, among other things, long-term contracting for renewable energy.

A final order was not available yesterday. However, in a press release, the ICC said that the order allows for the purchase of a portion of renewable energy through long-term contracts, but calls for the Illinois Power Agency to meet with all other interested parties, before the next procurement plan is filed, to work out concerns about a number of issues including the impact of long-term renewable energy contracts on customer bills and on the continuing development of competitive markets for electricity in the state.

As only reported by *Matters*, the Illinois Power Agency had proposed purchasing via long-term renewable PPAs 3.5% of the default service portfolio, or 2 million MWh annually over the 20-year period for a total purchase of 40 million MWh. The 2 million MWh annually would be split as 1.4 million MWh at Commonwealth Edison and 600,000 MWh at the Ameren utilities (Only in Matters, 11/25/09). As proposed, the PPAs would bundle RECs and energy, but exclude capacity.

RRI Energy Protests Proposed Elimination of Dispatch Bands at MISO

RRI Energy protested the Midwest ISO's proposal to eliminate the Dispatch Bands, arguing that elimination of the bands will subject resource owners to dispatch instructions that they may not physically be capable of responding to, though financial marketers contended that the changes do not go far enough in appropriately assigning costs to generators (Matters, 12/8/09).

MISO filed to remove the Dispatch Bands and related provisions of its tariff, reporting that, since the launch of the Ancillary Services Market, Dispatch Bands have been disabled more than half the time during dispatch intervals. MISO explained that the result of disabling Dispatch Bands so regularly is a disproportionate exemption of resources from Excessive Energy and Deficient Energy (EXE/DFE) Deployment Charges and Excessive Energy Calculations that would have otherwise been applicable to such resources.

As part of the elimination of the Dispatch Bands, MISO also proposed:

(1) Increasing the current Tolerance Band values from (+/-) 4% to (+/-) 8% of a resource's Average Setpoint;

(2) Increasing the maximum tolerance threshold value from 20 MW to 30 MW;

(3) Increasing the threshold of consecutively failed Dispatch Intervals from three to four, and

(4) Only calculating Excessive/Deficient Energy in those hours that the Failure to Follow Dispatch Flag (FFDF) is set to "true."

RRI called the proposal unjust and unreasonable because it will increase a resource owner's exposure to payment of Excessive/Deficient Energy charges by restricting the resource owner's ability to communicate its current operating parameters to the Midwest ISO.

"This is a problem because, in the Midwest ISO Real Time Market, the price can change from $20/MW to $400/MW in a single 5-minute increment, causing Midwest ISO to issue dispatch instructions for resources to ramp up and down very quickly. As a result of terminating Dispatch Bands, resources will be at risk of receiving dispatch instructions that they may not physically be capable of responding to, and, thus, will incur EXE and DFE charges," RRI said.

"When combined with the Tariff's must-offer requirement, such resources may be forced to offer energy and ancillary services at uniformly lower ramp rates in order to avoid those penalty charges, as well as to avoid the excessive wear and tear on equipment that comes from trying to meet unreasonable dispatch instructions. Reduced ramping capability, in turn, would increase the Midwest ISO's demand for, and cost, of ancillary services (e.g., regulation)," RRI added.

RRI called MISO's related revisions, such as increasing the Tolerance Band from 4% to 8%, inadequate to protect resources, particularly as the 8% level is below the 10% Tolerance Band that the Midwest ISO utilized before implementing Dispatch Bands.

DC Energy, however, welcomed MISO's filing, "given the exceedingly high number of instances in which Dispatch Bands have been disabled (i.e., approximately 62.9% of the time since the launch of the Ancillary Services Market)." As Excessive/Deficient Energy and Revenue Sufficiency Guarantee charges are waived when the Dispatch Bands are disabled, "DC Energy is concerned that these circumstances may have combined to inadvertently create financial incentives for market participants to provide the MISO with rather inflexible dispatch parameters leading to the MISO's need to disable the Dispatch Band option."

RRI countered that MISO failed to demonstrate a material market, operations or reliability impact that justifies discontinuing the use of Dispatch Bands, arguing that MISO provided no quantification or data to support the ISO's assertion that the disabling of the Dispatch Bands resulted in a disproportionate exemption of resources from Excessive/Deficient Energy deployment charges.

"[T]he Midwest ISO's own data shows a steady and substantial decline in the amount of such avoided EXE/DFE charges over the course of the year, suggesting that, if there were any problem with the Dispatch Bands, its has dissipated as the Midwest ISO and market participants have become more familiar with the ASM market design," RRI noted. RRI said that avoided Excessive/Deficient Energy charges were less than $75,000 per month in June, July and August, compared to over $250,000 in January. MISO data shows a similarly steady decline in the amount of Real Time Revenue Sufficiency Guarantee charge allocations that the Midwest ISO claims were avoided as a result of disabling the Dispatch Bands since May 2009, RRI added.

"These declines suggest that any problems with the Dispatch Bands were a function of the Midwest ISO and market participants inexperience at the start of the ASM market and such problems have since become de minimis," RRI contended.

Contrary to RRI's assertion that MISO's mitigating revisions, such as increasing the Tolerance Band, are inadequate to protect generators, EPIC Merchant Energy, SESCO Enterprises, Big Bog Energy, Jump Power, Solios Power, and JPTC argued that such mitigating revisions are unjustified, and would shift Revenue Sufficiency Guarantee costs from resources that cause them, to other market participants with non-exempt deviations.

The financial marketers also said that the elimination of the Revenue Sufficiency Guarantee exemption related to the Dispatch Bands should be accepted as effective January 6, 2009 (the start date of the Ancillary Services Market), rather than prospectively from March 1, 2010 as proposed by MISO.

Wisconsin Electric Power also opposed MISO's proposal to only calculate Excessive/Deficient Energy charges in those hours with at least four consecutive failed Dispatch Intervals, as such a limitation, "allows Generation Resources to modify their generation dispatch activities for the latter part of an hour based on observed prices at the beginning of the hour."

"If a Generation Resource observes high prices in the first 15 minutes of an hour, it can effectively ignore the Midwest ISO's dispatch instructions and over-generate in up to seven of the next nine intervals in order to maximize its profits while decreasing the efficiency of the market (assuming compliance with the Midwest ISO's dispatch instructions produces the most efficient market result) and perhaps causing Revenue Sufficiency Guarantee costs to increase," Wisconsin Electric observed.

"This is nearly identical to the issue the Independent Market Monitor ('IMM') raised with respect to Intra Hour Scheduling, where entities could schedule inefficient and non-beneficial transactions in the last 15 minutes of an hour after observing prices used in hourly settlements in the first quarter of an hour. In response to the concerns raised by the IMM, MISO changed its scheduling rules to eliminate this gaming opportunity. The Midwest ISO's proposal to modify its Tariff to allow Generation Resources a virtually identical opportunity is unreasonable and harmful to the efficient operation of the market and should not be accepted," Wisconsin

Electric said.

Wisconsin Electric further noted that, under the current tariff, the output of a resource in excess of the Tolerance Band Threshold (generally speaking, the lesser of 4 percent or 20 MW) is deemed to be Excessive Energy and is compensated at a rate (the Excessive Energy Price) which is based on the Energy Offer price.

This rate is typically less than the LMP rate, which reduces the financial incentive for resources to over-generate in an hour where the five minute LMPs were high for a few intervals, because the resources will not be compensated for this excessive output at the expected high hourly LMP price. Resources would instead only receive their offer price in those intervals with Excessive Energy.

However, the proposed increase in the Tolerance Band Threshold to the lesser of 8 percent or 30 MW, "may reduce the incentive to comply with the Midwest ISO's Dispatch Instructions rather than over-generate during certain volatile periods, leading to increased costs," Wisconsin Electric claimed.

"Of even more concern is that the Midwest ISO proposes not only to increase the Tolerance Band Threshold, but also to limit the periods when the excessive output from Generation Resources is deemed to be Excessive Energy. Under the Midwest ISO's proposal, Excessive Energy would only occur in an hour where there were at least four consecutive failed Dispatch Intervals. In the current Tariff there is no such forgiveness for Excessive Generation. This proposed limitation on what constitutes Excessive Energy will result in Generation Resources being compensated at higher rates for over-generating and the increased compensation will not be offset by any other market cost savings. The result is that additional costs may be passed on to Load (through the Revenue Inadequacy Uplift component of Revenue Neutrality Uplift)," Wisconsin Electric added.

RRI noted that MISO plans to reestablish Dispatch Bands once it has completed the design and development of its "look ahead" resource commitment and dispatch capabilities (the "look ahead tool"). "Under the circumstances, it makes no sense to eliminate the Dispatch Band provisions only to bring them back once the Midwest ISO completes work on its look ahead tool," RRI said.

Briefly:

BidURenergy.com Seeks Pa. Broker License

BidURenergy.com applied for a Pennsylvania electric supplier license as a broker/marketer serving all customer classes in all service areas. Owned by Energy Curtailment Specialists, BidURenergy.com is currently offering its online shopping website in New York, with plans to expand it to other states. Suppliers currently offering residential service through the site include Energetix, Gateway Energy Services, and Hudson Energy Services. Glacial Energy is also among suppliers participating on the site, for non-residential customers.

Resource Energy Systems Receives Ohio Broker License

The Public Utilities Commission of Ohio granted Resource Energy Systems an electric aggregator/broker license to serve mercantile customers in all service areas. As only reported by *Matters*, Resource Energy Systems provides renewable energy systems and load management services in New Jersey and California, and is expanding into brokering due to demand from its energy system customers (Only in Matters, 11/17/09)

STEP Resources Consulting Receives Ohio Broker License

The Public Utilities Commission of Ohio granted STEP Resources Consulting an electric aggregator/broker license to serve commercial, mercantile and industrial customers in all service territories. STEP Resources Consulting was formed in 2006 to offer demand-side management products, but has decided to expand into the supply procurement market (Only in Matters, 11/18/09).

Google Energy Seeks Market Based Rate Authority from FERC

Google Energy LLC applied at FERC for market-based rate authorization to sell electricity, energy, and related services and products, including ancillary services, the reassignment of transmission capacity, the trading of financially settled Financial Transmission Rights, and virtual trading and nodal trading in RTOs (ER10-468). Google Energy requested authority to sell specific ancillary services in PJM, ISO New England, the New York ISO, Midwest ISO and California ISO, in addition to non-organized markets (with exact services depending on the products available in each RTO, but generally relating to regulation, frequency response, and operating reserve service). In its application (in which it also sought Category 1 seller status), Google Energy said that it was formed to identify and develop opportunities to contain and manage the cost of energy for parent Google Inc., and will act as power marketer purchasing electricity and reselling it to wholesale customers.

Connecticut REC Banking Rules Clear Final Approval

The Connecticut DPUC said that new rules permitting the banking of RECs became effective December 22, 2009, after clearing the Legislative Regulation Review Committee and being filed with the Secretary of State (08-09-01). As only reported in *Matters*, the new rules allow RECs to be banked for up to two years, and suppliers are limited to using banked RECs to meet 30% of their RPS obligations in each class (Only in Matters, 8/20/09). Suppliers may only bank RECs if they have historically complied with the RPS, either through RECs or the alternative compliance payment. Previously, the only flexibility in compliance available to Connecticut suppliers was a concept called "borrowing," which allowed a supplier to borrow RECs from the first quarter of Year 2 to comply with the REC requirement in Year 1.

Spectra Signs Shippers to Support Expansion of Pipeline Into N.Y., N.J.

Spectra Energy Corp. said that it has signed binding precedent agreements with Chesapeake Energy Corporation, Consolidated Edison, and Statoil Natural Gas for an expansion of its existing Texas Eastern Transmission and Algonquin Gas Transmission pipeline systems to deliver new natural gas supplies to the New Jersey and New York area. These shippers' commitment to the proposed project provides sufficient market support to proceed with the expansion, Spectra said. The proposed pipeline would be capable of transporting up to 800 million cubic feet per day of new natural gas supplies to the region, and is targeted to be in service in the fourth quarter of 2013.

Direct Energy Enters Marketing Agreement with Struthers, Ohio

Direct Energy said that it has entered into a marketing agreement with the City of Struthers, Ohio, under which Direct is offering residential gas customers a price of $6.54 per Mcf for the March 2010 through December 2010 bill cycles. A senior citizen discount is available for customers 65 years of age and older who own their residence. The Direct Choice offer is an opt-in product. Direct also serves as the supplier to Struthers' opt-out aggregation.

Luminant Oak Grove Unit 1 Now Online

Luminant announced yesterday that the first of two 800-megawatt units at its new Oak Grove Power Plant in Robertson County, Texas, is now online, having recently achieved substantial completion. Oak Grove Unit 2 is scheduled for completion in mid-2010.

Central Hudson ... from 1

Central Hudson explained that under Staff's proposal, the WACOC rate will need to be posted to each pipeline's bulletin board in advance of the capacity release month. "As a result, the WACOC rate to be utilized for a given month will need to be an estimate, and could therefore differ from the actual pipeline costs incurred," Central Hudson said.

Central Hudson also opposed Staff's recommended expansion of the mandatory hourly pricing provision (HPP) for bundled electric customers to customers with demands of at least 300 kW. Central Hudson is currently in the process of lowering the current 1,000 kW mandatory hourly pricing cutoff to 500 kW, effective May 1, 2011 (Only in Matters, 9/23/09). Staff said that the expansion of mandatory hourly pricing to customers above 300 kW should occur in early 2012.

While Staff's testimony cites the benefits of potential reductions to peak period prices, enhanced peak period reliability, wholesale market power mitigation, a reduction in dependence on natural gas fueled generation, and more equitable pricing of customer bills associated with hourly pricing, Staff, "provides no basis, however, for the selection of a 300 kW threshold," Central Hudson argued.

Central Hudson noted that it is still awaiting Commission approval of its implementation plan to expand mandatory hourly pricing to approximately 109 customers exceeding 500 kW. Staff's expansion to 300 kW would include an additional 108 customers (42 of whom currently take supply from Central Hudson). Staff's proposal, "seems premature to the Company considering it has yet to begin implementation of HPP expansion to customers meeting the 500 kW threshold," Central Hudson said.

Central Hudson also said that the timeline suggested by Staff for the expansion is "overly optimistic" with regards to the time needed to install metering equipment and coordinate with customers to install phone communications. Central Hudson believes this process will require at least six months.

Integrys ... from 1

Upon customary regulatory approvals, the transaction will close in two steps. In the first quarter of 2010, Integrys Energy Services expects to transfer substantially all of the market risk associated with the transaction to Macquarie by entering into trades with Macquarie Bank Limited that mirror Integrys Energy Services' underlying commodity contracts. Integrys Energy Services then expects to transfer title to the underlying commodity contracts and close the deal with Macquarie Cook Power by the end of the second quarter of 2010, at which time the mirror transactions will terminate.

The sale is expected to reduce collateral support requirements of parent Integrys Energy Group by approximately $400 million.