Energy Choice Matters

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BGE Files Electric POR Discount Rates, Reduces Risk Factor, Defers Operational Component

Baltimore Gas & Electric has filed an updated electric Purchase of Receivables plan that breaks the discount rate into more granular customer groupings, reduces the risk factor, and removes operational costs from the discount rate in the first year.

BGE proposed that its electric POR discount rate be set at 1.39% for residential customers, 1.27% for Type I SOS-eligible customers, 0.68% for Type II SOS-eligible customers, and 0.24% for customers eligible for hourly priced service. Previously, BGE had proposed only two discount rate groupings: residential and non-residential.

BGE's proposed components for each discount rate are:

	Residential	**SOS Type I**	**SOS Type II**	**Hourly Service**
Uncollectible Expense	1.10%	1.00%	0.51%	0.14%
Program Development	0.07%	0.07%	0.07%	0.07%
Operation Cost	0.00%	0.00%	0.00%	0.00%
Risk	0.22%	0.20%	0.10%	0.03%
Total Discount Rate	**1.39%**	**1.27%**	**0.68%**	**0.24%**

BGE's development costs reflect a three-year amortization. Although BGE included program development costs in the discount rates, it said that it believes that recovering development costs from all customers is "sound ratemaking" and has a minimal impact on delivery rates. "Therefore, BGE respectfully requests that the Commission consider allowing BGE to recover Program Development Costs through the normal rate making process," BGE said.

If program development costs were recovered through base rates, it would increase base rates by only .003 cents per kilowatt-hour for one year. If this approach were approved, the applicable discount rates would be 1.32% for residential customers, 1.20% for Type I customers, 0.61% for

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George Sets Hearing on Pa. Agency to Procure SOS Supplies, Enter Long-Term Contracts

Pennsylvania State Rep. Camille "Bud" George, head of the state House of Representatives' Environmental Resources and Energy Committee, announced that a hearing is scheduled for Jan. 20 on legislation (HB 1909) that would establish a Pennsylvania state electric authority that would procure default service supplies on a managed portfolio basis, and enter into long-term contracts to support new generation.

Introduced last year (Matters, 5/29/09), HB 1909 would establish the Commonwealth Energy Procurement and Development Agency to allow Pennsylvania to, "free itself from the yoke of a broken wholesale power market condemning us to double-digit rate increases," George said.

"Because the wholesale market is under the federal jurisdiction, states' options are limited, but an independent public power agency can greatly mitigate some of the market flaws," George added, in a treatise on deregulation released in advance of the hearing titled "Failed Experiment."

The proposed state power agency would buy default supply for residents and businesses using

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Md. OPC Recommends Separate, Concurrent Reviews of SOS, Ratebased Generation

Responding to comments from Gov. Martin O'Malley for the Maryland PSC to quickly conclude its evaluation of long-term contracts for new generation, the Office of People's Counsel recommended that the PSC institute two procedural tracks to address the requirements of Senate Bill 1 of 2006, namely: (1) the use alternate approaches to SOS supplies other than the laddered full requirements contracts and (2) whether the utilities should build new generation (Cases 9117, 9214)

To answer the first question, OPC asked the PSC to direct the utilities to issue a broad request for proposals for supply options, and establish a process for evaluation and acceptance of some (or none) of those proposals. While the PSC has essentially conducted an ongoing review of SOS procurement in several different cases since 2006, OPC criticized each review as merely a discussion of hypothetical supply alternatives intermixed with policy debate, lacking real evidence of the costs of alternative supply options, such as a managed portfolio.

"To move toward answering the question of whether the SOS portfolio can be improved, the Commission should take the debate out of the realm of the hypothetical and into analysis of actual supply opportunities. The way to do this is to direct the utilities to issue an RFP that is open to many types of supply, the results of which can be analyzed to determine whether these actual supply resources can be assembled into a portfolio that is superior in terms of cost and risk to the current supply portfolio," OPC said.

The types of resources solicited in the RFP should include not only new generation plant but also other supply resources, such as existing generation plant, renewable resources, demand response or energy efficiency resources, or physical or financial contracts for the supply of capacity or energy for various lengths of time, OPC said.

OPC suggested that the Commission hire a consultant to help develop the RFP, in concert with OPC, the Maryland Energy Administration, the Department of Natural Resources, the utilities, and potential suppliers. OPC said that the Commission could establish a timeline for the RFP process that could result in a decision on new supply resources in approximately six months, in time to supply SOS needs for the period beginning June 2011.

While that RFP process is underway, OPC said that the Commission should move forward on a second track to determine whether it would be beneficial to customers for Maryland utilities to acquire or build generation facilities on customers' behalf.

"To begin the second track for answering the questions presented by Senate Bill 1 in 2006, the Commission should direct the Integrated Resource Planning Division of the Staff to convene a work group to frame the modeling effort to compare the alternatives. This would include the development of modeling inputs, such as construction costs for various types of plants, costs recovery requirements for utility ownership, and ranges of future market prices with and without the addition of new utility plant. Various renewable resources should, of course, be evaluated as part of the analysis. The group should also explore the alternative ownership, contractual, and operating arrangements that could be used, such as an RFP process for bids to build a plant, that could be used and may provide benefits for customers," OPC said.

OPC argued that such a process could be completed at the time the recommended RFP for SOS supply is completed. The results of the RFP process for SOS supply would provide valuable information for the evaluation of the utility-owned generation question and could be incorporated into such analysis, OPC said.

Texas Judge Remands CREZ Order to PUCT

A Texas state district judge has reversed the PUCT's order allocating $5 billion in investment to develop Competitive Renewable Energy Zones, remanding the issue back to the Commission.

"The court reverses and remands the agency decision because it is in excess of the agency's statutory authority, not reasonably supported by substantial evidence, and arbitrary and capricious," the judge ruled.

The City of Garland, which had appealed the PUCT's CREZ decision, said that under the judge's ruling, further transmission line development relating to the CREZ process must be suspended until the PUCT, "properly weighs the costs and benefits to electric customers."

The City of Garland, which runs a municipal utility, specifically appealed the PUCT's allocation of the CREZ lines to various transmission developers, as Garland argued that it submitted lower-cost proposals than the proposals submitted by some of the transmission developers selected by the PUCT.

Garland said that the judge's order requires the PUCT to reconsider not only Garland's proposal, but to also consider the costs and benefits of all the CREZ proposals.

RESA Asks DPUC to Exclude Vehicle Accidents from Supplier Reporting Requirements

The Connecticut DPUC should exclude all vehicle accidents from the types of workplace accidents electric suppliers would be required to report to the DPUC under draft regulations, the Retail Energy Supply Association said in comments (08-09-02).

As only reported in *Matters*, the DPUC proposal would require electric suppliers to file monthly reports on accidents connected with or due to the operation of the company's property, under draft new Sections 16-16-1 to 16-16-4 of the Regulations of Connecticut State Agencies (Only in Matters, 11/30/09).

While most of the accident types to be reported relate to utility-owned physical plant, one of the minor accidents listed in the rules which must be reported is, "Any accidents to employees or to members of the public that are connected with or due to the operation of a utility's property or facility, including traffic accidents, resulting in personal injury or property damage that are not considered a major accident pursuant to subsection (a) of this section." The term "utility" as used here includes competitive electric suppliers.

RESA said that vehicle accidents should be excluded from the reporting obligations, noting that the draft regulations already exclude non-fatal injuries associated with vehicles striking poles. "This exemption, together with the other exclusions in the Draft Regulations, recognize that certain types of accidents differ markedly from explosions, fires, gas releases and other occurrences that involve special utility plants and can compromise public safety on a broader scale. A vehicle accident does not rise to that level irrespective of whether the subject vehicle strikes a pole," RESA said, in asking that the exemption be expanded to all vehicle accidents. At the very least, RESA said, all non-fatal vehicle accidents should be exempted from the reporting requirement.

RESA further asked that the DPUC not require monthly reports from suppliers if no accidents occurred during the month. Such a negative reporting requirement was not contemplated by statute, RESA said, which only states that major accidents must be reported within specific timeframes. Reports of zero accidents provide no appreciable benefit to the Department, RESA said, while burdening suppliers with a monthly filing obligation.

CenterPoint Argues Standing in PRR 830 Appeal

CenterPoint Energy argued that it has standing to intervene in the appeal of ERCOT Protocol Revision Request 830 by several wind generators because it has interconnection study requests from wind generators in its service area, and because reactive power shortages, even if limited to west Texas, may cause cascading blackouts affecting its assets and customers (37817).

As only reported in *Matters*, Horizon Wind Energy and several others wind generators opposed CenterPoint's motion to intervene in the appeal docket, under which the generators are seeking to reverse ERCOT's new reactive power language which the generators claim changes ERCOT's prior policies (Only in Matters, 1/11/10). Aside from noting CenterPoint had not justified its standing in its motion, the wind generators questioned whether CenterPoint could establish a justiciable interest in the proceeding.

CenterPoint countered that, contrary to the assertions of the wind generators, the issue of reactive support by wind generators is not limited to west Texas or the wind generation supplied by only the Appellants. As noted by *Matters*, PRR 830 applies to all existing and future wind generators, CenterPoint said. Although some of the Appellants have only asked that PRR 830 not apply to existing generation, others, including Horizon, have asked for a complete overturn of PRR 830, implicating the proposed and in-development generation on CenterPoint's system.

"Wind generators could directly interconnect to CenterPoint Energy's transmission system. In fact, some wind generators have requested studies for interconnection of proposed wind generation plants directly to CenterPoint Energy's transmission system through the ERCOT interconnection study process. PRR 830 would apply to any future wind generators connecting to CenterPoint Energy's transmission system; therefore, CenterPoint Energy has a justiciable interest in ensuring that wind generators directly interconnecting to its system supply sufficient reactive power to support a reliable transmission grid," CenterPoint said.

"Even if PRR 830 was limited to the appellants' wind generation plants in west Texas, which it is not, CenterPoint Energy's facilities could be impacted by insufficient provision of reactive power from remote wind generation facilities," CenterPoint added, arguing that insufficient provision of reactive power in a localized area could potentially cause larger impacts within the bulk electric system beyond the localized area.

"This is not only a theoretical position, but has historical support. For example, the Northeast blackout in 2003 began as a localized transmission reliability issue within the area served by First Energy, including possible insufficiency of reactive power," CenterPoint said.

On a separate front, the appealing wind generators filed a motion to suspend implementation of the December 31, 2010, deadline for compliance by existing wind generation resources with PRR 830 on a day-for-day basis for the period between the November 17, 2009, ERCOT Board meeting at which PRR 830 was adopted through the date that a Commission order on the appeal would become final. The Appellants said that no party to the case, including ERCOT, objected to the suspension.

PJM Says Shortage Pricing Revisions to be Delayed Until March 1, 2011

Citing ongoing stakeholder review and software logistics, PJM has informed FERC that it will be unable to meet a June 1, 2010 deadline to implement changes to its shortage pricing mechanism prompted by Order 719.

In its original Order 719 compliance filing, PJM said that it and its stakeholders determined that while PJM's current scarcity pricing mechanism allows prices to rise during emergency conditions, it may not fully achieve compliance with the requirements of Order 719 because it does not result in price impacts during reserve shortages, but rather results in price impacts only once emergency procedures are implemented during or in anticipation of an energy shortage. However, as stakeholders could not agree on appropriate changes, PJM asked for an extension until April 1, 2010 to submit a compliance filing on shortage pricing. FERC agreed, provided that any changes could be implemented by June 1, 2010.

PJM said that stakeholders, "need more time to understand the issues and to develop a proposal that the majority can agree to accept." It asked FERC to extend the deadline for filing a shortage pricing proposal until June 18, 2010, with an implementation date of March 1, 2011.

PJM further said that the requested delay was driven by software logistics, stating that it does not wish to implement a major software change needed for shortage pricing until completing implementation of new dispatch software under its Advanced Control Center (AC2) project.

While the earliest technically feasible implementation date for a new shortage pricing mechanism is January 1, 2011, PJM does not recommended a January 1, 2011 implementation date because PJM wishes to avoid making any major operational changes in summer or winter peak periods so as to avoid creating any potential adverse impacts on system reliability.

Briefly:

Gateway Energy Services Announces PPL Residential Pricing

Gateway Energy Services announced residential rates for the PPL territory, including a fixed rate of 9.35¢/kWh through the December 2010 billing cycle. Gateway is also offering a variable monthly rate currently at 9.35¢/kWh, a 12-month fixed rate at 9.80¢/kWh, and a 24-month fixed rate at 10.40¢/kWh. All products, other than the variable rate, include an early termination fee equal to $12.50 per month remaining on the term.

Md. PSC Accepts SOS Bid Results

The Maryland PSC accepted the results of the January 11 solicitations for residential and Type I commercial full requirement SOS supplies for Allegheny Power and for Type II supplies for each of the utilities. In the solicitation, approximately 5.3 MW was bid for every MW needed. The PSC's Bid Monitor also reported that the implementation of the Price Anomaly Threshold for the residential and Type I products did not lead to the rejection of any winning bids.

Energy Alliances Receives Ohio Gas License

PUCO granted Energy Alliances a natural gas broker/aggregator license to serve all customer classes at all LDCs (Only in Matters, 11/26/09).

Oncor, CenterPoint Report AMS Status

Oncor reported that, as of December 31, 2009, it had installed 662,774 advanced meters, shy of its goal of 691,000 due to the previously reported issues with its work management system (Only in Matters, 12/16/09). CenterPoint has installed 152,275 advanced meters as of December 31, 2009.

PUCT Posts Updated List of Priorities

An updated list of the PUCT's priority projects for 2010 was posted in Project 23100, reflecting the treatment of the REP change in ownership or control rulemaking as a Priority 1 project (Matters, 11/15/10).

FERC Denies Rehearing Regarding Disclosure of New York Generator Identities

FERC denied rehearing from three undisclosed generators upon whom the New York ISO is seeking to impose extra-tariff mitigation, and ordered the NYISO to disclose the names of the generators within five days of its order (ER09-1682). NYISO is seeking FERC approval of unit-specific mitigation measures for the three generators in the New York Control Area (but outside of the New York City Constrained Area) to address conduct that NYISO says constitutes an exercise of market power, but that does not trigger the conduct and impact mitigation thresholds set forth in the Market Mitigation Measures (Matters, 9/7/09). FERC also directed NYISO to publicly provide aggregated Bid Production Cost Guarantee payment data for each generator, and the calendar period and the total number of days within which the alleged conduct occurred.

BGE ... *from 1*

Type II customers, and 0.17% for hourly service customers.

For the first year, BGE proposed not including any costs in the operational cost component. BGE said that it will monitor the impact of purchasing supplier receivables and other RM17 enhancements on its operating costs, and will include any incremental RM17 costs in future resets of the discount rate. Any difference between the actual operational costs and the amount collected by BGE to recover these costs will be included in the reconciliation component.

For the risk factor, BGE dropped its proposed 1.25% factor and instead recommended computing the risk as 20% of the electric uncollectible expense component, not to exceed 0.25%. The risk component will be calculated separately for residential, Type I, Type II, and hourly-priced service customers.

A risk component is justified, BGE said, since BGE will be paying suppliers on a daily basis five days after the due date. However, BGE only collects 74.7% of its residential electric customer billings in the first 30 days after billing. "Additionally, the Risk Component helps mitigate any unrecovered cash working capital lag that may arise if customer payment patterns are slower than expected," BGE said.

Pa. ... *from 1*

a portfolio procurement approach. "[S]uch an approach has allowed the Illinois Power Agency and the rural cooperatives in Pennsylvania to buy power cheaper than what the utilities offer," George said, though the Illinois Power Agency's portfolio has mainly consisted of laddered, short-term (three year) contracts, with an express finding that there is not enough market transparency to generally support longer-term contracting (with the exception of recently authorized PPAs for a small amount of renewable power, which have not been solicited yet and cannot be credited for any rate decrease).

"Twelve states have differing versions of public power agencies, including Illinois, which was able to provide lower prices and $1 billion in rate relief, and Maryland, which approved a $2 billion rebate after it opted to buy electricity and build generation," a news release from George's office said, though no citation or explanation was given for the Maryland reference.

The agency would be authorized to sell power at cost to commercial and industrial customers, but such customers would be subject to a minimum stay and not permitted to shop for competitive supply during the term of their supply arrangement with the power agency.

Additionally, George said that the Pennsylvania agency, "could lower rates by helping to develop new plants through entering into long-term purchase agreements with private plant developers."

"Today the utilities refuse to enter into long-term contracts that are necessary for these developers to finance their construction because their generation affiliates make exorbitant profits from the short-term wholesale market and do not want competition in generation; in other words, abuse of market power." George alleged.

George's legislation would also authorize the agency to acquire or construct baseload generation.

George said that the agency would be run by a five-member board, consisting of representatives nominated by AARP, industrial energy users, farmers, the Office of Consumer Advocate, and the Office of Small Business Advocate. George said that AARP and the Industrial Energy Consumers of Pennsylvania support the agency. The agency would be financed by rebates from large generators formerly owned by the utilities, "based on the overpayments they continue to receive at the market."

"Utilities are not interested in increasing supplies and risking their higher, often record, profits," George said. "The hallmarks of PJM Interconnection, which markets wholesale power in all or parts of 13 states, including Pennsylvania - are a lack of transparency, barriers to competition, high administrative costs and a flagrant disconnect between the costs of electric generation and the prices it charges," George charged.

In his Failed Experiment white paper, George said that, "[p]oorly regulated by the federal government, the market uses pricing schemes that shock the conscience. For example, in a pricing scheme called 'single market clearing price,' the price is set by the highest price bid by the most expensive -- typically natural gas -- generation that is necessary to meet the demand. This means that the least efficient generating unit sets the price, and all other generating units get paid the price that the least efficient unit bid, rather than their actual bids."

"This may be fair for a new power plant with high recovery costs, but it is highway robbery when it comes to the formerly regulated large utilities that now own plants that have already been paid for by ratepayers and bought by the utility affiliate for pennies on the dollar," George added.

George claimed that the average rates for deregulated states are 54% higher than the rates for regulated states.

George further criticized, "enormous capacity payments ... imposed by PJM that are supposed to incentivize new base-load generation to ease congestion and to lower market prices, but [have] failed to do so."

"Once the economy recovers, Pennsylvania must brace for post-cap rate hikes of 30% to 100% for residential customers, 40% to 120% for commercial customers, and 50% to 140% for industrial customers. Even with the recession and the historically low fuel costs, PPL's auctions for the year 2010 have shown an ominous 30% increase in rates," George said, ignoring the fact that most of PPL's rate hike is the result of laddering meant to mimic the managed portfolio process (specifically, the goal of reducing volatility), which led to PPL procuring most of its power during the height of the market. Had PPL procured 100% of power some three months ahead of delivery, the increase would have been marginal.

George also cited an American Public Power Association study, which has been criticized as using flawed data, in claiming that from 2001 to 2008, the return on equity by the generation segments of Exelon, PSEG and PPL in the PJM territory exceeded the return on equity by the regulated generation companies by a total of $12.1 billion.