Energy Choice Matters
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Penn Power Proposes Serving Mass Market SOS on 12-24 Month Contracts, Spot Purchases

Penn Power has proposed relying solely on 12 or 24-month full requirements contracts, with additional spot purchases, to serve residential and commercial customers under its default service program for the two-year period beginning June 1, 2011. Under the proposed default service plan, Penn Power would remove the current subcategories within the customer classes and introduce class-uniform rates (aside from a voluntary time-of-day option), and would also remove all generation-related uncollectibles from base rates and collect such charges through bypassable default service rates.

Under Penn Power's proposal, each tranche of default service load for the residential class would consist of a 95% fixed price, load-following 50 MW full requirements portion and a 5% variable spot priced portion, with a mixture of 12-month and 24-month delivery periods. The 5% variable spot priced portion would be priced at PJM's hourly real-time locational marginal price for the Penn Power zone.

The commercial class product is a 90% fixed price load-following and 10% variable spot priced 50 MW full requirements tranche for 12-month terms only.

The industrial class product is an hourly-priced service based upon the PJM real-time energy market. Suppliers will bid a fixed price to provide default service supply for the non-shopping industrial class load for a 12-month period and will receive payment consisting of (i) the PJM real-time hourly LMP for the Penn Power zone; (ii) a pre-specified ancillary services price; and (iii) a pre-specified capacity price.

The current cutoffs separating residential, commercial, and industrial customers would not be changed under the proposed plan.

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Dominion East Ohio SSO and SCO Auctions Produce Retail Price Adder of $1.20/Mcf

Staff of the Public Utilities Commission of Ohio recommended that the Commission accept the results of the February 9, 2010, Standard Choice Offer (SCO) auction and Standard Service Offer (SSO) auction at Dominion East Ohio, with each auction producing a Retail Price Adjustment of $1.20 per Mcf. The SCO auction ended at the price floor set by the SSO auction without the need to conduct an ascending auction to allocate specific customers to competitive suppliers (as there were no excess tranches bid when the floor was reached).

The auctions were for supplies for the period April 1, 2010 through March 31,2011. Typically SCO and SSO auction results are approved the day following the auction by PUCO, but PUCO's regular Wednesday meeting was postponed until today.

The SSO auction, for Percentage of Income Payment Plan and choice ineligible customers, saw eight bidders (of nine qualified) compete for three tranches, with a cap of one tranche per supplier. Bidding resulted in a Retail Price Adjustment of $1.20/Mcf, which is lower than any previously approved Retail Price Adjustment for Dominion East Ohio. The Retail Price Adjustment is added to

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AllStar Energy Says It Had No Obligation to Disclose Horizon Investigation

AllStar Energy (TexRep5, LLC) contended that it was not required to disclose to the PUCT a Delaware PSC investigation into Horizon Power & Light (concerning marketing practices) in AllStar's original July application for a REP certificate amendment to reflect a change in ownership, arguing that AllStar's principals were not the subject of the investigation (37801)

As only reported in *Matters*, AllStar originally filed for the certificate amendment in July to reflect the purchase of the certificate from Energy Services Group, but says that it erroneously listed Horizon Power & Light as its parent in that application, rather than its actual parent, The George Company. AllStar did not seek to correct this error until filing for another amendment in December 2009.

AllStar said that it has, "minority shareholders and principals who were also principals with Horizon Power & Light," most notably Neil Leibman, AllStar CEO, and Tom O'Leary, AllStar COO.

PUC Substantive Rule 25.107(g)(2)(B) requires an applicant to list, "[a]ny complaint history, disciplinary record and compliance record during the 60 months immediately preceding the filing of the application regarding: the applicant; the applicant's affiliates that provide utility-like services such as telecommunications, electric, gas, water, or cable service; the applicant's principals; and any person that merged with any of the preceding persons."

PUCT Staff is seeking revocation of AllStar's certificate for failure to disclose the Delaware PSC investigation, which cites Leibman and O'Leary as Horizon principals (Only in Matters, 1/1/10).

AllStar said that it and its parent, The George Company, were not involved in the Delaware investigation, nor is either affiliated with Horizon.

"Although the Applicant does have minority shareholders and principals who were also principals with Horizon Power & Light, those principals were never under investigation in Delaware," AllStar contended.

"It is true that Messrs. Leibman and O'Leary agreed to guarantee payments to the Delaware Commission, but they did so completely voluntarily," AllStar added, noting that the Delaware hearing examiner found that the PSC could not order Leibman and O'Leary to guarantee such payments.

AllStar argued that Leibman and O'Leary were not "required" to make any payment under the settlement, and thus §25.107(g)(2)(B) did not require disclosure of the Horizon settlement.

For the same reason (contending that Leibman and O'Leary were not subjects of the Delaware investigation), AllStar argued that it was also not required to list the Delaware investigation under §25.107(g)(2)(D), which requires a, "statement indicating whether the applicant or the applicant's principals are currently under investigation or have been penalized by an attorney general or any state or federal regulatory agency for violation of any deceptive trade or consumer protection laws or regulations."

PUC Substantive Rule 25.107(g)(2)(E) requires applicants to disclose, "whether the applicant or applicant's principals have been convicted or found liable for fraud, theft, larceny, deceit, or violations of any securities laws, customer protection laws, or deceptive trade laws in any state."

"There were never any findings of liability in the Delaware matter," AllStar said, contending that the requirement contained in §25.107 was thus not implicated.

The Delaware PSC's order states that, "Upon Commission approval of the Settlement Agreement, Messrs. Leibman and O'Leary, in their individual capacities, will be jointly and severally liable for tendering to the Commission the sum of $250,000," though the order does not link such liability, arising under the settlement, to a finding of any violation.

AllStar further argued that, even if it had been required to disclose the Horizon investigation, certificate revocation would not be an available remedy. PURA 39.356(a) provides:

"The commission may suspend, revoke, or amend a retail electric provider's certificate for significant violations of this title or the rules adopted under this title or of any reliability standard adopted by an independent organization certified by the commission to ensure the reliability of a power region's electrical network, including the failure to observe any scheduling, operating, planning, reliability, or settlement protocols established by the independent organization. The commission may also suspend or revoke a retail electric provider's certificate if the provider no longer has the financial or technical capability to provide continuous and reliable electric service."

AllStar contended that, "[i]f the Legislature intended the Commission to have the power to revoke or suspend a certificate for any significant violation of PURA or rules adopted under PURA or independent organization's standard, it could have ended the first sentence with a period after the word 'title.'"

"Obviously, the Legislature intended for the second part of the first sentence to mean that REP certificates are subject to revocation and suspension for significant violations of those statutes, rules and protocols that affect the reliability of the power region's electrical network," AllStar claimed.

Conn. IRP Does Not Recommend Long-Term Supply Contracts

A 2010 integrated resource plan for Connecticut submitted by Connecticut Light & Power and United Illuminating makes no specific recommendation for long-term contracts for either capacity or renewable energy, but does raise the possibility of such contracts under certain scenarios (10-02-07). Previous IRPs had recommended the use of long-term contracts to meet various policy goals.

The IRP finds that, "[t]here will likely be a substantial surplus relative to Connecticut's local resource requirements through 2020, due to a lower load forecast than utilized in prior IRPs, planned generation additions in Connecticut, planned DSM [demand side management], and increased Connecticut import capability, even after accounting for forecasted retirements (which are substantial)."

A capacity surplus is expected in the New England region as a whole through at least 2015, and likely through 2020, the IRP finds, for similar reasons. "Some combinations of strategies and scenarios may lead to a need for additional resources after 2015 in cases that involve higher load, lower renewable additions, and/or higher retirements," the plan notes.

"The prospect of capacity surpluses and consequently low capacity prices, combined with tighter environmental requirements, is likely to induce the retirement of substantial amounts of old, high emission, oil-fired steam units. Retirements are estimated at 2,446 MW in New England in the Base Case (1,504 MW in Connecticut). There is substantial uncertainty around these estimates; retirements could exceed 4,000 MW under market conditions that induce earlier new entry and reduced capacity prices," the IRP adds.

Still, assuming the New England states are successful in building enough new renewable generation and associated transmission to meet RPS requirements, "there should be no need for any additional generating resources for resource adequacy purposes over the next ten years under a wide range of demand uncertainty," the IRP finds.

"Predicated on reasonable assumptions regarding supply and demand and transmission, Connecticut has sufficient generation installed or under contract to assure locational resource adequacy requirements for reliability over the next 10 years, even if significant uneconomic, high-emissions generating plants retire," the IRP reiterates.

However, the IRP does examine, without recommendation, several scenarios under which capacity is added prior to any reliability need, to determine if such additions would benefit customers. Aside from evaluating DSM and renewable scenarios, the IRP discusses an "Efficient Gas Expansion" strategy, which would involve developing of 1,100 MW of combined cycle capacity in Connecticut in advance of a reliability-based need for generating capacity.

Such capacity would be, "backed by power purchase agreements or other mechanisms to support capacity that might not otherwise be developed by the market."

"The concept of this strategy was to examine the value to customers of paying the full cost of new conventional generation and, in return, receiving its full value, and doing so before such a resource would have been developed by merchant developers. This could be achieved through long-term contracts that shift the cost responsibility, operational risks, and market risks and rewards to customers," the IRP states. The IRP does not address how such costs would be allocated to customers.

The analysis found that under the Efficient Gas Expansion strategy, costs are generally similar to the reference strategy, but about $200 million lower.

The IRP also finds that, "[t]he optimal strategy for meeting the State's RPS requirement is to procure renewable energy as part of a New England regional market."

"More specific to Connecticut, the IRP analysis demonstrates that a regional strategy for renewable energy development is the most effective way for Connecticut to meet its RPS requirements. As is discussed in more detail below, aggressive in-state renewable development is not likely to be cost-effective, and will likely increase emissions compared to the Reference Strategy," the IRP says.

While the IRP finds that the RPS requirements of the New England states are likely to be met through 2012, "[t]here is significant uncertainty regarding the overall supply and demand balance and the likely REC prices beyond 2012."

The IRP further states that, "[c]onstructing sufficient new renewable generation in New England would require a major capital investment, in the range of about $20 billion for the generation plus about $10 billion for associated transmission by 2020."

Much of the capital investment in generation would be paid for by revenues from the energy and capacity markets, "but REC payments and out-of-market payments would also be required for some resources," the IRP notes.

The IRP lists four mechanisms for procuring new renewable capacity, with market-based renewable expansion being the preferred method. Following market additions, state financing of renewable projects (such as through grants, loans, or REC purchases but not offtake agreements) is the second preference.

However, the third preference, should renewable capacity not be built, is the use of long-term contracts between renewable developers and the utilities. The IRP notes that for such contracts to be successful, contracts should not be mandatory, as mandatory contracting tends to raise prices because sellers know that the buyer does not have the option of rejecting all offers if they are uneconomic. The IRP further cited the potential negative impact on the utilities' credit ratings from signing long-term contracts (through debt equivalency) that "could raise customer rates over the long-run," unless the state provided "legislative and regulatory protections" that would lead the rating agencies to not impute the contracts as debt.

Finally, as a final option, the utilities could develop and own renewable capacity themselves. The IRP stressed that the order of preferences is general, and that it would likely be appropriate to, "blend these mechanisms to ensure the most efficient and certain expansion of renewables, and to avoid scenarios where renewable development deviates from demand to the point where there is either a shortage or glut of RECs."

United Illuminating also recommended further studying potential nuclear expansion in Connecticut (which currently has a moratorium on nuclear development). While the IRP itself makes no recommendation, it does find that, "it may be easier to develop a nuclear plant under cost-recovery regulation, as opposed to merchant operation," citing the wealth of risks and long lead-time in nuclear development.

Using a cost-recovery regulatory approach does not necessarily imply utility ownership, the IRP noted.

Briefly:

PUCT's Nelson Volunteers to Lead Disconnect, Critical Care Stakeholder Discussions

PUCT Commissioner Donna Nelson has volunteered to work with stakeholders regarding the rulemakings related to Disconnection of Electric Service and Deferred Payment Plans (36131) and Critical Care Designations (37622). Nelson said that Staff is still a few weeks away from having a draft proposal for publication prepared, and suggested that working toward a consensus among stakeholders before the publication stage will make the adoption phase of these rulemakings smoother. Nelson set a goal of developing a draft proposal for publication by the March 11 open meeting.

MP2 Energy Texas Receives REP Certificate Amendment

MP2 Energy Texas LLC received from the PUCT an amended REP certificate reflecting its ownership of the certificate previously held by Altres Energy (Only in Matters 12/11/09). Led by several former principals at Mpower Retail Energy, MP2 has been active in the ERCOT wholesale market as a QSE and asset manager since its founding about a year ago.

Pepco Seeks Increase in SOS Administrative Charge in D.C.

Pepco said that its recently posted SOS rates for the District of Columbia reflect a request to increase the Administrative Charge for residential and small commercial customers (Only in Matters, 2/2/10). Pepco said that the increase is required due to higher cash working capital requirements resulting from the introduction of weekly settlement in PJM. Pepco is requesting to increase the residential Administrative Charge from 4 mils/kWh to 5 mils/kWh, and to increase the small commercial Administrative Charge from 5.5 mils/kWh to 6.5 mils/kWh.

CL&P Reports Wholesale Suppliers

Connecticut Light and Power reported that DTE Energy Trading, Inc. won 100% of Last Resort Service supplies for the three-month period beginning April 1, 2010. CL&P also reported that, for the year 2010, the following suppliers are serving Standard Service load: Conectiv Energy Supply, Inc.; Hess Corporation; PPL EnergyPlus, LLC; Sempra Energy Trading LLC; and Shell Energy North America (US), L.P.

Oncor Reports System Recovery Complete

Oncor reported that its Egate, LCIS and Competitive Retailer Informational Portal (CRIP) systems have recovered from Sunday's outage, and said that transactions are processing normally to create orders to be worked in the field. At this time, market participants should resume sending e-business requests directly to the standard Oncor e-mail addresses, Oncor said.

Cape Wind Says Project Would Save $185 Million Per Year

Cape Wind yesterday claimed that its offshore wind project would reduce wholesale electric prices for the New England region by $4.6 billion over 25 years, citing a study conducted by Charles River Associates. Savings would derive from the displacement of higher priced fossil fuel units, Cape Wind said.

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For residential and commercial customers, the weighted average costs of default service supply would be adjusted quarterly to reflect expected changes in the spot market price of supply included in the residential and commercial supply plans.

Penn Power proposed four separate procurements starting in January 2011 and running through March 2012 for each class, and would procure such supplies as part of the descending clock auctions to be conducted for load at its affiliates Met-Ed and Penelec.

"The proposed integrated, simultaneous, multi-round descending clock auction process allows suppliers to efficiently switch between the different products being procured by Penn Power, Met-Ed and Penelec, based on their price differences," Penn Power said.

Unlike Penn Power's interim default service plan, where Penn Power is the LSE for non-shopping industrial class customers, each winning supplier would be the LSE for the portion of Penn Power's non-shopping industrial load which it serves.

Under Penn Power's plan, winning suppliers would be responsible for the non-solar Alternative Energy Portfolio Standard (AEPS) requirements. For the solar AEPS requirements, Penn Power proposed a separate RFP to obtain a fixed number of solar Alternative Energy Credits (AECs) over a nine-year period.

Penn Power proposed three structural changes to the Price to Compare Default Service Rider, which is applicable to the residential and commercial classes. Such changes are (1) development of a single default service rate for the residential class, and a single rate for the commercial class (2) recovery of Network Integration Transmission Service

(NITS) costs under a separate NITS Charge component of the rider; and (3) creation of a voluntary time of day option for residential customers.

Under Penn Power's existing Price to Compare Interim Default Service Rider, there are five separate rate groups within the residential class, reflecting various seasonal, discounted and blocked rate designs. These individual rate classes would be eliminated in favor of a single default service rate applicable to the residential class. Currently, the commercial class has two rate groups with different default service pricing, which would be eliminated in favor of a single rate.

Penn Power would require all default service generation suppliers to include in their bid prices the cost of providing all PJM transmission charges to deliver electric power to Penn Power's Transmission Zone except NITS, MISO Transmission Expansion Plan (MTEP) charges, entrance fees imposed by PJM, and exit fees imposed by MISO. Penn Power proposed recovering the NITS costs and the costs of the MTEP charges, entrance fees, and exit fees as a component of the Price to Compare Default Service rates. NITS costs would be allocated among rate schedules based on each rate schedule's contribution to the system peak.

Penn Power proposed that the Hourly Pricing Service Default Service Charge include the following components:

- Hourly Pricing Energy Charge: Recovers the LMP determined on a real time basis using PJM's load-weighted average LMP for the Penn Power Transmission Zone plus any ancillary service charges. Replaces the current Market Based Energy Charge and Revenue Sufficiency Guarantee Distribution Charge
- Hourly Pricing Cap-AEPS-Other Charge: Recovers costs paid by Penn Power to suppliers for capacity, AEPS compliance and any other costs associated with providing hourly priced service, adjusted for distribution loss multipliers
- Hourly Pricing NITS Charge: Recovers NITS Costs and any direct transmission owner charges imposed by PJM to provide hourly pricing default service
- Administrative Charge: Recovers costs of conducting the auction and other administrative costs of providing default service

Customers receiving service under Rate Schedule GS-Small and GS-Medium may opt onto the hourly pricing default service. However, if they do so, they will be ineligible to return to the fixed price default service for 12 months. Customers will still be able to elect a competitive supplier at any time.

Penn Power proposed a Solar Photovoltaic Requirements Charge Rider (SPVRC) designed to recover the costs of solar alternative energy credits, including start-up and administrative costs. The SPVRC Rider would apply to all delivery service customers, excluding customers on Rate Schedules GS Large, GP and TP who own a solar photovoltaic generator.

Penn Power proposed fully unbundling the generation-related uncollectible accounts expense from distribution rates, similar to the process recently approved at Met-Ed and Penelec.

The Default Service Uncollectible Account Expense to be recovered in the Price to Compare and Hourly Default Service Riders is calculated based on the relationship of default service revenues to total revenue for 2009. The ratio determined on this basis would be multiplied by the uncollectible accounts expense recorded for the 12 months ended December 31, 2009. The amount thus derived, divided by 2009 default service sales in kilowatt-hours, yields a cents per kilowatt-hour adjustment to the retail price of default service supply. The revenue billed under this adjustment would not be subject to reconciliation.

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the monthly NYMEX prompt month settlement price to equal the retail price paid by customers.

In the SCO auction, 12 bidders were qualified, and 11 participated in the auction. Nine tranches of customers were available, and bidders were limited to winning a maximum of three tranches. After five rounds, the SCO auction reached the price floor of $1.20/Mcf as set by the SSO auction with exactly nine tranches bid by five different suppliers. At there were no excess tranches bid at the time the auction reached the price floor, there was no need to conduct an ascending auction to further winnow the number of bidders. Under the SCO format, if there are excess bids when the price floor is hit, an ascending auction occurs with suppliers bidding in increments of $75,000 per tranche for the right to serve a specific tranche of customers.

The Office of Consumers' Counsel, as it has done recently at Vectren and Columbia, filed comments arguing that the SCO format has not benefited customers, as it exposes customers to payment of a higher tax rate. Noting that the SCO did not produce any additional payments from suppliers to serve tranches while yielding the same retail adder, OCC said that, "[w]hen the higher sales tax rate for the standard choice offer is factored in, the result is customers are paying more under the standard choice format."

Dominion East Ohio noted that OCC agreed with the stipulation implementing the SCO auction which specifically provided that SCO sales were to be considered choice sales, subject to the sales and use tax, and not a form of LDC sales service that would have been subject to the lower Gross Receipts Tax.

The SSO and SCO auctions were conducted by World Energy Solutions.