Energy Choice
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Few Stakeholders Support Further Unbundling Michigan Generation, Distribution

Further separating electric distribution and generation supply in Michigan drew little support in comments before the Michigan PSC, though several industrial customers said that the goal of such separation (generation price discipline) would be better attained by expanding customer choice (U-16196, Only in Matters, 2/9/10).

Act 286 requires the PSC to report on potentially separating distribution and generation beyond the functional separation which currently exists.

Consumers Energy and Detroit Edison, in similar comments, said that the current functional separation makes further separation unnecessary. Cost accounting in generation and distribution are also separate, and are administered by different personnel in different departments, Consumers said.

Further, since 2006, retail rates have been unbundled whereby customers are charged separately for distribution and generation, Consumers said. Distribution charges include the costs of distribution, customer service, and certain legacy costs tied to the utility service area, such as securitization and existing inter-class rate subsidies. Generation charges include generation and transmission costs for full service customers. "The current rate setting process requires that distribution and generation costs be segregated and subjected to appropriate examination by the Commission in a public proceeding before rates are established. Therefore, no new mandate is needed to ensure separation of distribution and generation costs and revenues in Michigan electric utilities," Consumers argued.

"If the intent of the legislation is to take this separation further, to explicitly require the Company

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Utilities, Large Customers Cite Higher Costs from Michigan Purchasing Pool

Utilities and large customers informed the Michigan PSC that customers would not benefit from the creation of a Michigan electric purchasing pool, but independent power producers said that centralized procurement would lower costs by removing utilities' self-interest in procuring generation (U-16197, Matters, 2/9/10).

Act 286 requires the Commission to study, "whether the state would benefit from the creation of a purchasing pool in which electric generation in this state is purchased and then resold." The Act does not otherwise define the power pool, which initially sounds like a balancing energy market. However, other interpretations included a pool for purchasing or construction of the utilities' combined future load requirements, rather than an organized wholesale market.

Consumers Energy and Detroit Edison both said that a Michigan power pool would be duplicative of the Midwest ISO. If the pool were intended to replace MISO, it would suffer from reduced scale (the inability to lean on a wider pool of reserves being one example), and would create seams, Consumers said. If the pool were to supplement the MISO's current markets, Consumers said that it would layer additional costs and complexity with no discernible benefit.

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MP2 Energy to Immediately Begin Serving Non-Residential Customers in ERCOT

MP2 Energy LLC announced yesterday that it will immediately begin selling retail power to commercial and industrial customers in ERCOT, and has secured a credit facility in support of MP2 Energy Texas LLC.

As first reported by *Matters*, MP2 was launched by several former principals at Mpower Retail Energy who later worked together at Lehman Brothers and Credit Suisse (Only in Matters 12/11/09). MP2 acquired Altres Energy for entry into the ERCOT retail market, and received an updated REP certificate in February (Only in Matters, 2/11/10).

Pacific Summit Energy LLC is providing credit support to MP2.

"We are excited to begin serving customers in this new venture," Brandon Schwertner, CEO of MP2 said. "The competitive credit terms, our long history in ERCOT, market knowledge, and exceptional access to wholesale supply will allow us to deliver the lowest possible price and best value proposition to our customers."

MP2 has been active in the ERCOT wholesale market as a QSE and asset manager since its founding about a year ago. MP2 is pursuing a number of significant asset management and M&A opportunities in ERCOT, and other markets.

MP2 operates as a Level 4 QSE in ERCOT and provides power and gas scheduling for over 700 MW of capacity. MP2 also manages more than 220 MW of Load Acting as a Resource, and over 30 MW of Emergency Interruptible Load Service Demand Response.

MISO Files Complaint Against PJM Related to Under-Reporting of Market Flows

The Midwest ISO filed a complaint at FERC against PJM to recover costs associated with PJM's under-reporting of market flows from 2005-2009 under the Joint Operating Agreement (JOA), which caused a net underpayment of market-to-market settlement costs by PJM.

After several years of evaluating anomalies in the settlement of market-to-market congestion management, in April 2009 the Midwest ISO determined that PJM's excess Market Flow on several constraints was most likely caused by missing generator impacts in the range of 6,100 MW of capacity, responsible for several hundred megawatts of unaccounted market flow. PJM determined in June of 2009 that the output of 34 generators in the ComEd area were improperly accounted. This error was attributable to the fact that the status of several units had not been updated over time, which caused incorrect units or portions of units to be excluded from the calculation. Other errors resulted from the use of incorrect unit ownership percentages for certain jointly-owned units applied to the Midwest ISO and PJM Firm Flow Entitlement calculations.

"These errors were in contravention of the JOA, which imposes a general duty to perform in compliance with NERC reliability standards," MISO said.

As a result of these errors, the Midwest ISO was required to reduce its own Market Flows, or has paid PJM to redispatch, or remove congestion from certain flowgates when the Midwest ISO would not otherwise have been required to do so.

MISO is seeking $65 million (plus interest) in compensation for the 2007-2009 period, a total which is not in dispute. MISO is also seeking $65 million for the 2005-2007 period, a period which does not have the benefit of State Estimator data and whose associated underpayment is in dispute. PJM has estimated that its underpayment for the 2005-2007 period was no greater than $12 million, but MISO argued that in the absence of specific information that would permit the precise amounts of underpayments to be determined, "it is reasonable to conclude that the amount of underpayments for the 2005-2007 period were approximately the same as determined for the 2007-2009 period, for which information is available."

MISO also filed a separate complaint regarding PJM's contention that the use of certain proxy flowgates during June 2008 was improper under the tariffs. PJM is seeking a refund nearly $9 million from MISO for improper use of Flowgate 2286.

Furthermore, MISO said that it has documented several events in which PJM appears to have bound a Reciprocal Coordinated Flowgate, but failed to initiate the market-to-market process, which MISO said is in contravention of the JOA.

"The likely result of this failure would be to impose higher costs on PJM stakeholders who must pay more for redispatch, while Midwest ISO generators that do not participate in reducing congestion by redispatching, would be deprived of revenues. These revenues instead would flow to PJM generators that were redispatched instead, to reduce the congestion," MISO said.

Briefly:

Glacial Seeking Maryland Gas Supplier License

Glacial Natural Gas filed for a Maryland natural gas supply license yesterday. A copy of Glacial's filing was not immediately available. Maryland is the ninth state in which Glacial is seeking to expand into natural gas supply (see Matters, 3/3/10).

FERC Grants Waiver of Six-Month Limit on Mitigation for Three New York Generators

FERC has granted the New York ISO a waiver from the otherwise applicable six-month limit on imposing extra-tariff mitigation measures on three New York generators (see Matters, 9/7/09). The extended mitigation remains subject to refund pending a final FERC order on the appropriateness of the extra-tariff mitigation.

PUCT Denies REP Application of Secure Energy

The PUCT denied, without prejudice, the REP certificate application of Secure Energy LLC, for failing to cure deficiencies in its application (Only in Matters, 1/14/10). Secure Energy's management includes several principals from backoffice vendor ePsolutions.

Affiliated Energy Group Reaches 10 Billion kWh Milestone

AEG Affiliated Energy Group said that it now represents retail clients constituting in excess of 10 billion kWh of annual electricity load in Texas. "AEG's Retail Consulting Division has continued to grow and represents a dominant position in Texas. AEG represents a substantial portion of electricity end-users in the ERCOT market as of 2009's end," said AEG Executive Vice President Chad Price.

DP&L Applies to Institute REC Purchasing Program

Dayton Power and Light applied at PUCO to institute a program under which it will offer to purchase RECs from residential and small commercial customers in its service territory with distributed renewable generation not in excess of 100 kW. The purchase agreements would extend through December 31, 2011, and be priced based on the weighted average price which DP&L pays for the same type of REC through transactions executed in that calendar year. In the event that DP&L does not execute any transactions for that type of REC during a given calendar year, the purchase price shall default to a value equivalent to 65% of the alternative compliance payment for that year. Costs will be recovered though DP&L's bypassable alternative energy rider.

Mich. Separation ... *from 1*

to treat distribution and generation as individual profit and loss centers, Consumers Energy believes this presents an additional problem," Consumers added. Consumers said that such further separation would require the establishment of a "transfer price" between generation and distribution since the distribution side of the business acts as the Load Serving Entity for full service customers. Since the company's actual costs will be different than the Midwest ISO wholesale price, reflecting a "transfer price" on separate books for distribution and generation is problematic, Consumers said. The accepted price in MISO is the MISO hourly price, but it is neither the revenue to Consumers Energy's generation, nor the real cost to distribution, Consumers added.

Both Detroit Edison and Consumers also said that further separating generation and distribution would run counter to current industry trends which may require closer integration. "Smart grid evolution and the integration of renewable and demand-response resources with the grid are expected to blur the boundaries between distribution and generation. If one were to enforce a strict separation between distribution and generation, then it is not yet clear where demand-response or emerging technologies would fit, such as large scale battery storage on the distribution system," Consumers said.

"Further, the increased reliance on intermittent generation resources, such as wind and solar, will require greater, not lesser, coordination between the distribution and generation sides of the Company. Thus, to effectively deal with the emerging future, collaboration between the two functions will need to be seamless and closer than ever," Consumers added.

The Michigan Electric and Gas Association also opposed further separation, stating that the current functional separation has not been shown to be inadequate in achieving the intended goals of preventing market power abuse and self dealing by utilities. The Association of Businesses Advocating Tariff Equity cautioned against further separation by stating that, "[i]t has been the experience of ABATE members that if there is a problem with the electrical service that, with transmission separated from generation and distribution, two separate meetings are required in order to attempt to resolve the problems - one with the transmission owner and another with the generation and distribution owner. If generation and distribution are also then separated, then that could create another burdensome contact point with no discernable offsetting benefits."

"In summary, the separation of generation and distribution will lead to inefficiencies and provide no benefits to customers or improvement in the reliability or quality of service," ABATE said.

The Michigan Industrial Ratepayers also oppose greater separation, but said that concerns about utilities obtaining the least-cost generation supply should be addressed through other measures, such as expanded customer choice, which would discipline utility generation rates. The Industrial Ratepayers include Hemlock Semiconductor Corporation, Tilden Mining Company L.C. and Empire Iron Mining Partnership.

The Industrial Ratepayers said that requiring divestiture of the utilities' generation would be detrimental to ratepayers. "There is little doubt that Michigan ratepayers significantly benefit from maintaining generation resources within regulated electric utilities. Regulated generation is provided to ratepayers at cost, plus a reasonable rate of return. Once generation is divested, power that was once available to ratepayers at cost suddenly becomes all purchased power," the Industrial Ratepayers said.

However, the Industrial Ratepayers also said that other measures could ensure that customers are not harmed by utilities' preference for their own generation, by requiring that utilities face financial risk if utilities favor their own higher-cost generation resources at ratepayer expense.

Chief among these measures is the customer's ability to migrate to a lower-cost competitive generation supplier, the Industrial Ratepayers argued, but the industrials noted that such relief is currently restricted to 10% of load.

"Permitting ratepayers to migrate to competitive suppliers would do far more to discipline utility generation costs than requiring generation to be separated from distribution," the industrials said.

"The risk of substantial migration imposed considerable discipline on electric utility power supply costs ... [but the] 10% cap on customer migration effectively limits the pressure on a utility to maintain competitive power supply costs," the Industrial Ratepayers added.

"Since there is no further risk of migration for either Consumers Energy Company or The Detroit Edison Company, there is no further competitive discipline on either of these utilities to effectively manage their power supply costs," the Industrial Ratepayers cautioned.

"Michigan's ratepayers, particularly Michigan's industrial ratepayers, cannot afford to be captive power supply customers to a utility with little incentive to provide competitively priced power supply ... The Michigan Commission should support the expanded use of customer choice as a means for disciplining utility generation costs," the Industrial Ratepayers said in arguing that there should be no limits on the number of industrial customers that can migrate to competitive suppliers.

The Industrial Ratepayers also suggested expanded competitive bidding, and Commission disallowance of unreasonable or imprudently incurred utility power supply costs, to discipline generation prices. The use of competitive bidding for utility-owned generation should extend beyond just engineering, procurement, and construction (as is required currently) to require that utilities competitively bid other aspects of the project as well, such as the actual operation of the generator once built, the Industrial Ratepayers urged.

Energy Michigan agreed that even if the Commission adopted further separation of generation and distribution, the benefit would be limited so long as the 10% choice cap remains in place. Still, Energy Michigan said that such separation should be pursued to allow market forces to improve efficiency and decrease the cost of procuring power for customers. "Competition for generation supply has been more robust in states that require functional separation of a utility's distribution services from the generation supply," Energy Michigan said.

"Energy Michigan notes that the period in Michigan's recent history when generation was in short supply occurred when there was no competitive market for generation (1998 through 1999) and ended when generation became subject to market forces under PA 141 in June 2000. If the utility generation function were required to stand on its own and compete with other suppliers to serve the generation needs of the utility load, the generation side of the house would have a strong incentive to ensure the highest operating efficiency, an incentive that it does not have today."

Mich. Pool ... *from 1*

Rather than a short-term balancing market, the Michigan Wholesale Power Association viewed the pool as a centralized power procurement agency, which MWPA said could lower costs for customers be removing utilities' self-preference for owned generation. MWPA said that, since utilities earn no return on purchased power, they have an incentive to build new generation on which they earn a return even if it is more expensive than competitive supply.

"The MWPA submits that if decisions pertaining to the procurement of power resources in Michigan were made by a disinterested and qualified decision maker, the consequences of balancing resourcing decisions to be made by biased decision makers could be substantially eliminated."

MWPA also said that pooling all of the utilities' capacity needs would eliminate the "boom and bust cycle of capacity versus load," allowing the rate impacts of new generation to be spread over more customers.

The Association of Businesses Advocating Tariff Equity opposed a pool but favors a state-wide method similar to the integrated resource planning process to evaluate both the need for new electricity generation and ascertain the lowest cost options. The IRP, ABATE said, should allow for a competitive bid process for determining who builds, owns, and operates new generation. Competitive bidding should not be limited to only a certain portion of the cost, such as the engineering, procurement and construction phase, ABATE added.

"Hopefully, this two-step process can help mitigate the current bias that utilities have to build and own their own capacity because this approach will grow rate base and, therefore, profits. Michigan cannot afford to allow the utilities to go ahead and build new capacity when existing capacity owned by independent third parties is available and would provide long-term reliability at a low cost," ABATE argued.

The Michigan Industrial Ratepayers, however, said that centralizing purchasing decisions would increase risks, and could actually increase costs. "Furthermore, spreading costs across all of Michigan would create inequities and inefficiencies that should be avoided," the Industrial Ratepayers said.

"While a purchasing pool could enter into bilateral contracts for power aside from MISO, it is unlikely that achieving economies of scale would have a material impact on the negotiated price. In the current energy market environment, bilateral contract pricing is driven by expectations of future wholesale energy market prices," the Industrial Ratepayers argued.

Energy Michigan stressed that regardless of the type of power pool, competitive supply customers should not be required to participate in or pay for a state power pool, or generation procured thereunder.