Energy Choice Matters

April 6, 2010

IURC Extends NIPSCO Choice Program Through Q1 2012, Directs Creation of Standard Contract

The Indiana Utility Regulatory Commission has approved the modifications to and extension of Northern Indiana Public Service Company's alternative regulatory plan, which includes NIPSCO's gas choice program, through March 31, 2012 (Cause No. 43837). A petition to renew the choice program must filed by October 1, 2011.

The IURC's order generally adopts a settlement among NIPSCO, marketers, and the consumer counsel that removes the subsidization of suppliers by sales customers, while providing suppliers with greater flexibility in several areas.

However, in its order, the IURC found that despite the increased participation by NIPSCO customers and gas marketers, and almost 13 years of experience with the choice program, no witness was able to speak to the impact of the choice program on customers. The IURC directed that studies be performed on such customer experience to inform future gas choice policy at NIPSCO and possibly other LDCs. "Indeed, when asked at the hearing, NIPSCO witnesses admitted that no studies or analyses were conducted on customer satisfaction or whether customers had saved money by participating in the Choice program. The Commission realizes that savings may not be the only impetus for customers to enroll in the Choice program; as part of its next petition seeking extension of the program, NIPSCO should provide evidence concerning customer satisfaction and results of participating in Choice so that the Commission has an adequate basis to

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BGE Opposes Most Staff Changes to Electric POR Discount Rate

Using late fee revenues to offset a part of the electric POR discount rate would, "transfer the benefit of these revenues from customers to suppliers," BGE said in opposing most of Staff's adjustments to BGE's proposed discount rates.

As previously reported, Staff's resulting discount rates are 0.5055% for residential customers, 0.3570% for SOS Type I-eligible customers, 0.2116% for SOS Type II-eligible customers, and 0.0460% for Hourly Service customers. Staff's proposed discount rates compare to BGE's latest proposal of 1.39% for residential customers, 1.27% for Type I customers, 0.68% for Type II customers, and 0.24% for Hourly Service customers (Only in Matters, 4/6/10).

As noted yesterday, Staff has recommended using late fee revenue as an offset to uncollectible expense in the POR discount. "BGE objects to this recommendation as it is not in customers' best interests. If late payment revenues were included as an offset to the discount rate, it could not be used to offset collections costs, which is the function of the late fee mechanism now," BGE said.

"The result of moving this revenue from base rates, where it currently resides, into the discount rate computation would be higher distribution rates to all customers. In effect, then, Staff would transfer the benefit of these revenues from customers to suppliers," BGE added.

Without using the late fee revenue as an offset, the uncollectible component of the discount rate would be 1.1% for residential customers, 1.0% for Type I customers, 0.51% for Type II customers,

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CL&P Dynamic Rate Filing Offers Few Details on Impact for Supply Procurement, Pricing

Connecticut Light & Power's filing regarding optional dynamic pricing structures for customers did not provide specifics on how CL&P intends for the time-based options to be incorporated into the current Standard Service supply procurements, or on how the dynamic rate options will impact recovery of generation costs (05-10-03RE01, Matters, 4/2/10).

CL&P briefly states that it, "believes the majority of the dynamic pricing differentials should be reflected in the Generation portion of customer bills. However, CL&P recognizes that additional discussion of the most appropriate unbundled component rate design and recovery is necessary, and recommends that these issues be addressed as the Company moves closer to actual implementation of dynamic pricing as part of the overall time line addressed below."

CL&P further said that on or before July 31, 2012, it shall request DPUC approval of smart meter and dynamic pricing cost recovery based on vendor responses to its RFP for advanced meters.

As previously reported, CL&P has proposed offering all customers a Peak-Time Pricing option or a four-hour Time of Use rate. A Peak-Time Rebate option would be made available exclusively to limited-income customers.

CL&P recommended implementing a pricing differential similar to the "high" differential used in its pilot, which was an adder of $1.60/kWh above the normal flat rates during peak times under the Peak-Time Pricing option, with a reduction of about $0.05/kWh in off-peak times. For the Peak Time Rebate, the differential, in the form of a peak credit, was essentially the same. For the Time of Use Product, the high differential was a $0.20/kWh spread between peak and off-peak rates.

CL&P said that an eight-hour Time Of Use rate, as tested in a pilot, is not attractive to customers, and recommended no further extension of that rate to customers with peak energy loads of less than 100 kW. Additionally, CL&P said that the four-hour Time Of Use rate is not cost effective by itself for either residential or non-residential customers, and said that it should only be marketed in conjunction with the Peak-Time Pricing or Peak-Time Rebate programs.

CL&P envisions beginning advanced meter deployment in the fourth quarter of 2012, with completion in 2016.

PP&U Suit Claims Tortuous Interference, Breach of Contract

Public Power & Utility is pursuing a claim of tortuous interference against Starion Energy in its suit against Starion in Connecticut superior court, and is also pursuing claims of breach of contract, misappropriation of trade secrets, and breach of fiduciary duty against broker Energy Savings Group and several former employees/agents (UWY-CV-10-6004061-S).

PPU said that it engaged and paid Energy Savings Group substantial sums of money to act exclusively as its customer representative and to market its generation services. PPU and Energy Savings Group entered into a broker agreement date July 1, 2009, "whereby ESG contracted to protect any confidential, proprietary and trade secret information it received from PPU," PPU's complaint states.

Energy Savings Group operated a customer call center for PPU and administered and processed contracts and other paper work associated with customer enrollments. In connection with such services, PPU provided Energy Savings Group with confidential and proprietary customer information such as customer contact information and rate and contract terms.

PPU said that it paid Energy Savings Group approximately $1 million in sales commissions, as well as monthly sums to cover overhead plus amounts to develop the iloweredmyelectricbill.com brand name used by Energy Savings Group to market PPU's services. A copy of PPU's contract with Energy Savings Group attached to the complaint provides that the broker fee was $0.003/kWh.

Since December 23, the date on which Starion was licensed, PPU has lost in excess of 2,067 customers, which "grossly exceeds" historic norms, PPU said, attributing the losses

to the alleged misuse of proprietary information.

The PPU complaint alleges that Ruzhdi Dauti, former PPU CFO and now, according to the complaint, CFO at Starion, as well as several agents of Energy Savings Group formerly working on behalf of PPU, used PPU's confidential proprietary information, "to create Starion and model it after and take unfair commercial advantage of PPU."

The complaint details the previously reported allegations that agents of Energy Savings Group have marketed to PPU customers claiming that PPU has a new name (Starion), with PPU further alleging that Energy Savings Group's agents are using the PPU proprietary information in such marketing efforts (Only in Matters, 4/1/10).

Briefly:

Ambit Formally Announces NYSEG Entry

Ambit Energy announced yesterday it has begun offering electric and gas service to customers in NYSEG, with a product guaranteeing annual savings with a "competitive" monthly rate. Ambit's entry into NYSEG for early 2010 was first reported by *Matters* (Only in Matters, 10/21/09). For both electricity and gas, the guaranteed savings product is a monthly variable rate that for the first two billing cycles is 7% lower than the default service commodity charge, with annual savings of at least 1% less than the NYSEG's published supply rate for the applicable 12-month period. Ambit is also offering a green electric product under which the price for energy will be 2¢/kWh above the its variable rate applicable for the guaranteed savings plans.

Satori Energy Seeks Pa. Broker License

Satori Energy applied for a Pennsylvania electric generation supplier license as a broker/consultant serving commercial customers over 25 kW and industrial customers at PECO, West Penn Power, Met-Ed, and Penelec.

DPUC Draft Would Grant VeriServ Aggregator License

The Connecticut DPUC would grant VeriServ Corporation an electric aggregator certificate to serve commercial, industrial, municipal and governmental customers under a draft decision (Only in Matters, 1/14/10).

PJM Agrees to Delay Posting of RPM Offer Data

While calling the reaction of its posting of several offer data from the Base Residual Auction "needlessly alarmist," PJM nevertheless said that it will refrain from posting the aggregate offer data from the Base Residual Auction for the 2013/2014 Delivery Year following the clearing of that auction in May 2010 (ER09-1063). PJM informed FERC that it will keep this data non-public for six months or until such time as the Commission directs otherwise. This forbearance will include not just data displayed in a tabular format, but also this same data expressed graphically. Give that the previously posted offer data posted on March 19, "is sufficiently aged to comply with existing disclosure standards," combined with PJM's voluntary agreement to delay posting any additional aggregated RPM data, PJM called the Independent Market Monitor's motion for a cease and desist order moot.

Delaware PSC Approves Reasonable Allowance For Retail Margin Filing

The Delaware PSC approved on a permanent basis the temporary changes in Delmarva Power & Light's Reasonable Allowance for Retail Margin which went into effect on a temporary basis on January 9, 2010, deferring two adjustments recommended by Staff until the next Reasonable Allowance for Retail Margin filing, which Delmarva has recently made (09-484). Specifically, Staff's revisions will result in a lump sum recovery for Year 3 under-collections of Reasonable Allowance for Retail Margin cost of $978,862, and a 6.4% carrying charge for the amortization of under-collected Year 2 Reasonable Allowance for Retail Margin costs for the Hourly Priced Service class. Delmarva has since filed for another update of the Reasonable Allowance for Retail Margin, which would decrease the previously filed SOS rates to take effect June 1, 2010 by 0.1519¢/kWh for mass market customers, 0.5586¢/kWh for Secondary MGS-S customers, and 0.3844¢/kWh for Secondary LGS-S customers. Hourly priced customers' generation

rates are not affected as the Reasonable Allowance for Retail Margin is a nonbypassable delivery charge for these customers.

Delaware PSC Delays IRP Filing

The Delaware PSC granted Delmarva Power & Light's motion to delay the filing of its next integrated resource plan due to several major changes in the regional energy environment. The updated IRP will not be due until 90 days after the date that the PJM Board approves the 2010 PJM Regional Transmission Expansion Plan (RTEP). The PSC noted that since the 2009 RTEP was issued there have been changes in the PATH and MAPP transmission line schedules; a new 2010 PJM load forecast; new generators that have signed interconnection agreements; generators that have announced their retirements since the 2009 RTEP, and new demand resources that bid into the May 2009 RPM -- all of which are likely to have a significant effect on the 2010 RTEP. "[T]herefore the 2010 RTEP could very well render an IRP filed on May 31, 2010 invalid," the PSC said.

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determine whether Choice should continue beyond 2012 (or, conversely, whether similar programs would be valuable to other LDCs)," IURC ordered.

The settlement commits parties to work on developing billing comparability to provide customers with greater transparency and ability to compare choice and sales service. The IURC expanded on the settlements' requirements and directed NIPSCO, through a working group, to develop a viable tool to be hosted on NIPSCO's website to allow customers to "shop and compare" each marketer's standard contract price as well as NIPSCO's Gas Cost Adjustment in an effort to promote competitive pricing and customer education. "Comparability is essential for customers to comprehend the costs in a concise 'apples-to-apples' layout. This comparability will assist the Commission in addressing some of our concerns regarding the results customers achieve through participation in the Choice program," the IURC said.

Furthermore, the Commission ordered that the same collaborative process shall include the development of standardized contract language and a form contract to be adopted by all approved marketers. "The creation of a standardized language does not preclude marketers from offering a variety of supply options or contract terms. However, the Commission finds that the creation of a uniform contract language is an important step in minimizing confusion potential Choice customers may have when faced with a number of supplier options," the Commission said.

The major modification of the choice program contained in the approved stipulation is that choice marketers will be assigned upstream pipeline capacity and storage assets on a recallable basis, in order to eliminate the subsidy of the choice program by both NIPSCO and its non-choice customers. By assigning upstream pipeline and storage capacity costs directly to marketers on a recallable basis, NIPSCO will eliminate the cost of duplicate capacity previously required to support the Supplier of Last Resort function -- costs which have been exacerbated as choice participation grew.

Previously, the tiered Choice surcharge and Pipeline Demand Cost Reduction Program were initiated to address this subsidy, but did not completely eliminate it. With the assignment of recallable capacity to marketers, the need for these surcharges is eliminated, and they will no longer be used.

Choice suppliers support the change because, under the prior system, suppliers were subject to a tiered surcharge without having access to the underlying assets -- a disadvantage cured by the settlement because the costs now follow the assets causing them. Suppliers also testified that under the revisions marketers will be less likely to be charged for under-utilized capacity and will be better able to match upstream purchases with their customers' actual needs.

Another major modification is the addition of a third nomination for choice suppliers. The choice program has historically included two nomination options for marketers. Under Option 1 (Company Nomination Option), marketers delivering volumes equal to the daily load forecast provided by NIPSCO have no

imbalance, while those delivering a volume different than that provided in the forecast are subject to daily imbalance charges. Under Option 2 (Forecast Option), marketers are provided with a regression formula that allows for the input of forecasted wind, temperature and type of day by the marketer from which the daily nomination is derived. The imbalance between daily nominated volume and actual deliveries is the imbalance volume subject to imbalance charges.

The new Option 3 for nominations allows marketers to nominate their own daily delivery quantities because marketers are now assigned upstream capacity and storage capacity, and because marketers may have a better understanding of their customers' daily loads. Option 3 does not include a daily imbalance. Under Option 3, a monthly reconciliation will take place whereby monthly usage will be allocated by day using a profile of NIPSCO general sales volumes and those volumes reconciled against daily nominations.

Suppliers said that the self-nomination will provide marketers with greater flexibility for those who choose it, and should also provide a mechanism for the more efficient use of capacity allocations under the modified choice program.

Marketers will have the ability to trade imbalances with other marketers using the same forecasting option. Choice suppliers also retain the option to make an annual election to cash out imbalances on a monthly or annual basis.

Furthermore, NIPSCO will eliminate the option for marketers to deliver gas to NIPSCO's city gate, and will require marketers to nominate gas into either or both of NIPSCO's zones.

The settlement includes a revised standardized Supplier Aggregation Service (SAS) contract to be executed between NIPSCO and participating marketers. The revised SAS contract incorporates a Code of Conduct for marketers as well as detailed operational parameters for participation in the choice program. It also contains standardized terms for an optional POR program, with a discount of 1%.

The revised SAS contract includes updated credit requirements for suppliers as well. The revised contract incorporates seasonal collateral equal to ten average days of January delivery for the winter period, and ten average days of April delivery for the summer period. Collateral will be calculated by multiplying the total volume for each period times the closing price for the NYMEX March contract on the last business day of September for the winter, and the closing price for the NYMEX October contract for the last day of February for the summer.

The settlement provides for continued customer education through biannual bill inserts, with NIPSCO agreeing to make a best effort for the first insert to be included in May bills to describe the changes in the choice program. NIPSCO agreed to take into account suggested content from marketers and the consumer counsel in developing the education materials but reserves the right to make a final determination with respect to any content it

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and 0.14% for Hourly Service customers. Including the late fee revenues as an offset would lower the uncollectible portion of the discount rate to 0.3821% for residential customers, 0.3463% for Type I customers, 0.1916% for Type II customers, and 0.0483% for Hourly Service customers.

BGE further opposed Staff's recommended reduction of $57,000 in cash working capital in the discount rate. Staff's changes would reduce the POR discount rate by the following percentage points: 0.0217% for residential customers, 0.0171% for Type I customers, 0.0123% for Type II customers and 0.0113% for Hourly Service customers.

BGE said that Staff's position erroneously assumes that BGE is paid by all customers on the due date of their bill and therefore BGE will pay the supplier after it receives payment from the customer. "The reality is that many customers do not pay by the due date, as evidenced by the existence of arrearages. BGE proposes to send payment to a supplier five days after the due date on the bill, whether or not BGE actually receives payment from that customer," BGE noted.

Staff had further recommended removing the risk factor from BGE's discount rate for lack of evidentiary support. Staff argued that BGE

requested a risk factor for the sole purpose of offsetting potential collections costs associated with recovery of POR revenue, but that BGE has not identified additional collections costs that are anticipated as a result of POR.

The proposed risk factors from BGE were 0.22% for residential customers, 0.20% for Type I customers, 0.10% for Type II customers, and 0.03% for Hourly Service customers.

BGE countered that it did not request a risk component for the purpose of collections costs alone. "BGE requested the risk adder due to the myriad of unidentifiable risks associated with taking on a new business, not just as an offset to collections costs. Examples of these new risks include, but are not limited to, business risks associated with entering a business that is outside of its core business; cash flow risk associated with taking on a third party's financial obligations; regulatory risk associated with changes in regulatory policies that could impact customer payments and BGE's cash flow; and credit risk associated with the impact of all the risks associated with the purchase of supplier receivables on BGE's credit rating," BGE said.

BGE agreed with Staff's revisions regarding allocation of programming costs, including using BGE's 1997 cost of service study to distribute such costs among classes, and using a two-year amortization period to recover amounts spent through 2009, with the actual spend incurred after 2009 to be included in a future discount rate.

Staff's changes reduce the programming cost component of the discount rate to 0.1451% for residential customers, 0.0277% for Type I customers, 0.0323% for Type II customers, and 0.009% for Hourly Service customers, versus the proposed 0.07% programming cost component applicable to all classes.

The Retail Energy Supply Association urged the Commission to require BGE to remove any vestige of an all-in/all-out requirement. While BGE modified its tariff language such that a customer may opt for a different billing option than what the supplier has chosen for all its accounts vis-a-vis POR, RESA said that BGE's proposal remains inconsistent with the customer's right to choose their billing option in Maryland, while also describing BGE's mechanism as administratively complex.