Energy Choice Matters

July 1, 2010

Md. PSC Orders Modification to WGL POR Compliance Plan

The Maryland PSC has accepted, with modifications, the mechanics of Washington Gas Light's Purchase of Receivables program, directing WGL to file updated discount rates reflecting the Commission's order by July 16.

In WGL's December 2009 filing (Only in Matters, 12/8/09), it did not file tariff language or a discount rate, but proposed that the discount rate would be calculated based on five components: 1) bad debt expense; 2) Information Technology implementation costs; 3) incremental collection costs; 4) a risk factor; and 5) a reconciliation factor.

The Commission struck the risk factor, and adjusted several of the other components.

To begin, the Commission held that there shall be a separate discount rate for residential customers and for non-residential customers.

The bad debt component shall initially be developed from the most recent historical 12-month period, reflecting the percentage of actual net bad debt write-offs for this period. The numerator of the calculation shall be WGL's bad debt costs for all customer sales in each class (residential and non-residential), and the denominator shall be the billed revenue for all of these customer sales in each class. In subsequent years, the bad debt expense shall be the bad debt actually experienced in the purchased accounts for the previous 12-month period.

For Information Technology costs, WGL had proposed a five-year amortization. Although the Commission believes that amortization of the incremental IT implementation costs is appropriate, the PSC questioned whether a five-year amortization period is appropriate. Consequently, the Commission directed WGL to include rates calculated using a two-year, three-year, and five-year

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CenterPoint Energy Seeks Distribution Cost Recovery Factor in Rate Case

CenterPoint Energy has filed a rate case with the PUCT in Docket 38339 which includes a request for a Distribution Cost Recovery Factor (DCRF), and alternatively seeks to significantly increase the fixed monthly customer charge applicable to residential customers if the proposed DCRF is not approved.

Under the proposal, CenterPoint would file its request for a Rider DCRF adjustment with the PUCT by June 1 of the year following the end of the evaluation period. In order to minimize the number of times that rate changes may affect retail electric providers during the year, the Rider DCRF adjustment would be effective with the bills rendered on and after September 1 of the year that the request is filed. The September 1 effective date coincides with the effective date for rate adjustments pursuant to CenterPoint's Transmission Cost Recovery Factor. The Rider DCRF adjustment would remain in effect until August 31 of the following year.

Although CenterPoint did not seek in the instant case to roll in any existing riders into the DCRF, CenterPoint said in testimony that Rider DCRF may reduce the number of cost recovery riders. Most new programs can be incorporated into Rider DCRF, eliminating the need for additional riders in the

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Briefly:

Interstate Gas Supply Receives Maryland Gas License

The Maryland PSC granted Interstate Gas Supply (IGS Energy) a natural gas supplier license to serve residential, commercial, and industrial customers at Baltimore Gas and Electric, Washington Gas Light, Columbia Gas of Maryland, and Chesapeake Utilities (Only in Matters, 2/8/10).

Public Power & Utility Receives Md. Electric License

The Maryland PSC granted Public Power & Utility an electric supplier license to serve all customer classes, including residential customers, in all service areas (Only in Matters, 12/4/09). Public Power & Utility agreed to market service in Maryland as "Public Power" to eliminate any confusion that it is a regulated utility. PSC Chairman Douglas Nazarian still expressed concern that the name Public Power could confuse customers since Public Power is not a public or municipal entity, though the PSC did not order any further name change as a condition of licensure. However, Nazarian put Public Power on notice that any customer complaints demonstrating customer confusion with the fact that Public Power is in fact a competitive electric supplier will be "a problem" that would be dealt with "severely."

Tara Energy Seeks to Add Trade Name Smart Prepaid Electric

Tara Energy applied at the PUCT to add the trade name Smart Prepaid Electric to its REP certificate.

Conn. Draft Would Grant Advantage Energy, LLC Aggregator License

A draft Connecticut DPUC decision would grant Advantage Energy, LLC an electric aggregator certificate to serve residential, commercial, industrial, municipal, and governmental customers.

Conn. Draft Would Grant RJT Energy Consultants Aggregator License

A draft Connecticut DPUC decision would grant RJT Energy Consultants, LLC an electric aggregator certificate to serve residential, commercial, industrial, municipal, and governmental customers.

CenterPoint Expects to Cease Billing Rider RURC in August/September

CenterPoint Energy informed REPs that it expects to terminate billing Rider UCOS Retail Credit (RURC) to REPs between August 15, 2010 and September 15, 2010. Rider RURC states that it shall be terminated when the aggregate rate reduction attributable to RURC is $12.8 million. CenterPoint currently estimates that this will be achieved between August 15 and September 15, 2010, but said that the reduction may occur sooner or later than that timeframe.

Nelson Expresses Concern with Non-Wind RPS Carve-Out

The PUCT's investigation of a potential non-wind RPS is causing Commissioner Donna Nelson "major heartburn," who said during a hearing yesterday that she needs to be convinced that the Commission has the statutory authority to implement a non-wind RPS before addressing various designs for the carve-out (35792). Nelson, who is concerned with the bill impact from any carve-out, noted that the Commission has previously found that the legislative target of 500 MW for non-wind renewables is not a mandate. Nelson also raised concerns about PUCT jurisdictional ratepayers subsidizing renewable projects of municipal utilities which receive RECs under the RPS program, but are not required to retire RECs to meet any Commission obligation. Chairman Barry Smitherman questioned whether wood biomass is appropriately considered renewable given its emissions, and asked whether the 500 MW non-wind target is achievable without biomass.

Narragansett Electric Re-files Deepwater PPA

Narragansett Electric (National Grid) has re-filed a long-term PPA with Deepwater Wind with the Rhode Island PUC with the same initial price point, but the potential for lower prices if costs decrease. The filing comes after lawmakers revised the statute related to the offshore wind PPA to require the PUC to consider economic development and other ancillary benefits in evaluating the PPA, and to restrict how the PUC may interpret whether the PPA's price is commercially reasonable. The PUC had previously rejected the proposed contract on the grounds that the price was not commercially reasonable. The PPA calls for a price of 23.57¢/kWh in 2012, with an annual escalation of 3.5% (which equates to 24.4¢ in 2013, the price previously rejected by the PUC). The new contract is an open book proposal, however, meaning that potential savings on capital costs would be reflected in a lower price. Even with any potential savings, Deepwater still envisioned the price at 22¢/kWh.

PUCO Approves SEET Review Policies

The Public Utilities Commission of Ohio released an order regarding the Significantly Excessive Earnings Test (SEET) applicable to the distribution utilities, which defers the question of whether to include off-system sales as part of the SEET calculations to individual SEET cases at each utility (09-786-EL-UNC). PUCO further found that the SEET evaluation shall occur at the individual distribution company level (e.g. Columbus Southern Power), and shall not combine affiliated distribution companies within or outside of Ohio. The SEET is intended to examine whether the provision of service through an electric security plan or Market Rate Offer results in significantly excessive earnings for a distribution company, which would be remedied by PUCO action.

Starion Raises Concern with DPUC Letters to Customers

The Connecticut DPUC has sent letters to customers of Starion Energy soliciting customers' input on whether their, "experience with the company during the solicitation process was positive or negative," which prompted Starion to raise a number of concerns regarding the DPUC's process (09-10-10RE01).

The DPUC is currently conducting a formal investigation of Starion originally prompted by concerns cited by Public Power & Utility. However, Starion and Public Power & Utility have said that they have resolved their differences, though the DPUC is proceeding with the investigation on its own motion.

"Although Starion is confident that its customer satisfaction level is high, the Department's unilateral solicitation of information directly from customers creates a number of concerns," Starion said.

"First, and most important, unless the customer feedback is kept within the procedural boundaries that accompany a formal designation of prosecutorial staff, it would violate Starion's rights under the Connecticut Uniform of Administrative Procedure Act," Starion said.

"Further, the Department's actions are likely to intimidate Starion's customers and create the impression among otherwise satisfied customers that the company's business practices are suspect," Starion added.

For these reasons, Starion requested that the Department halt this outgoing correspondence and provide Starion with the information requested below:

1. How many letters of this sort were sent?
2. Who were they sent to?
3. How were the recipients selected?
4. Will Starion have access to all of the e-mail responses received?
5. Will telephone conversations of those who call the corresponding staff member be transcribed?
6. Will Starion have access to the transcriptions of these telephone conversations?

"Apart from the procedural concerns triggered by the Department's correspondence to Starion's customers, the content of the solicitation raises substantive questions. Specifically, what is the connection between whether a customer's enrollment experience 'was positive or negative' and the underlying legal issues in this case? Whether a customer's experience was 'positive or negative' implicates many considerations that have nothing to do with whether Starion has complied with the law," Starion said.

Counsel for Starion reported that DPUC Staff have advised counsel that the letters to Starion customers emanated from a section of Staff deemed "prosecutorial" pursuant to Section 16-19j of the Connecticut General Statutes, though Starion's counsel was not aware of any formal written designation of Prosecutorial Staff in the case. If the letters to Starion customers in fact came from Staff designated as Prosecutorial, Starion requested written confirmation of the names of the designated Staff members and the effective date of the designation.

"Starion has fully cooperated with the Department and its staff throughout its licensing proceeding and throughout this investigation. The company respectfully requests that the Department clarify the procedural context of the letters to customers by confirming a) that the letters came from properly designated prosecutorial staff and b) that no communications between such staff and customers will be relied upon by the Department in rendering a decision in this matter unless and until prosecutorial staff brings this material into the record with all attendant procedural protections," Starion said.

PUCO Approves FirstEnergy Utilities' Smart Grid Pilot, Defers Cost Recovery Issues

The Public Utilities Commission of Ohio approved the FirstEnergy Ohio utilities' smart grid pilot, which will include the distribution of up to 44,000 advanced meters at Cleveland Electric Illuminating only (09-1820-EL-ATA).

In conjunction with the smart meter deployment, Cleveland Electric Illuminating is to select an initial 5,000 customers, and potentially another 39,000 customers, for a peak-time rebate pilot under Rider PTR (Only in Matters, 11/19/09). The rider is to be in effect through August 31, 2012.

The only eligibility criteria listed in Rider PTR included in the FirstEnergy utilities' pro forma tariff is that the customer cannot be taking service under a critical peak pricing rate schedule, and must be within the geographic confines of the smart grid pilot. No mention is made of any restrictions related to whether the customer is taking supply under the Standard Service Offer, nor do the FirstEnergy companies describe the selection process.

The peak time rebate would provide rebates of either 80¢/kWh or 40¢/kWh for reductions during 15 peak events called by CEI during the summer. When placed into the program, customers will be randomly assigned into a pilot paying either 80¢/kWh or 40¢/kWh of reduction.

Customers will not be penalized for not reducing usage or increasing usage during peak events. Rebates will appear as a line item on bills.

PUCO deferred cost recovery issues to the pending electric security plan of the FirstEnergy utilities. As proposed by the FirstEnergy companies, revenue shortfalls created by the peak time rebates would be recovered from all CEI customers on a nonbypassable basis, with the exception of customers taking service under Rider GT (General Service - Transmission), who will not pay for any such shortfalls.

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amortization period for its estimated IT implementation costs when it files its proposed discount rates.

Regarding incremental collection costs, which WGL has not packaged with bad debt, the Commission questioned whether WGL already recovers its collection costs through the imposition of late payment charges when a customer fails to pay its bill within 20 days after the date of rendition. The Commission directed WGL to describe the incremental collection costs expected to be recovered through the POR discount rate not recovered through the late payment charge assessed on a customer's account that receives its commodity service from a supplier.

WGL's proposed 0.25% risk factor was rejected as unsupported. "The POR discount rate is to allow the Company to recover the costs of the POR program and ensure that the suppliers and the customers that are electing retail choice bear the burden of the costs that arise from the POR program. The Company is not entitled to use the POR discount rate to create another revenue stream for purposes of establishing base rates," the PSC said.

The Commission noted that WGL proposed to use the reconciliation factor to recover under-collections, but would not use the component to return over-collections to customers. "As previously noted, the POR discount rate should not create additional revenues for the Company, but should permit the Company to recover the actual costs to the Company of implementing and maintaining the POR program and complying with the provisions of COMAR 20.59. Accordingly, the Reconciliation Factor shall be used to calculate the next year's POR discount rate and to adjust the rate to recover under-collected costs or give credit for over- collection of costs," the Commission said.

WGL had estimated that it would be unable to implement POR until mid-May 2011. The Commission expressed concern with the length of the implementation time, as well as the estimated costs associated with the development efforts ($2.1 million). The Commission directed WGL to describe in more detail the tasks that are needed to develop, program, and test the system, and to provide its best estimate of when each task can be completed as well as an estimate of the costs to complete the tasks, including any source documents on which it relied to calculate the estimated costs.

WGL was ordered to submit revised tariff language consistent with the Commission's order by July 16. The Commission did not elect an effective date for the new tariff at this time.

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future, CenterPoint said.

CenterPoint's proposed Rider DCRF differs from that contained in a PUCT draft rule currently under consideration. Specifically, the CenterPoint DCRF contains additional costs which would be tracked via the DCRF, including costs associated with changes in the level of non-distribution capital investment, changes in retail operations and maintenance expenses, changes in retail depreciation and amortization expenses, and changes in taxes associated with these additional cost components.

CenterPoint's Rider DCRF would be calculated as follows. On an annual basis, CenterPoint would calculate its annual retail cost of service. The calculated retail cost of service would be based on calendar year financial data, and would use CenterPoint's pre-tax rate of return last authorized by the PUCT. The sum of the calendar year's actual retail energy delivery revenues, transmission cost recovery factor revenues, and miscellaneous service revenues would be subtracted from the calculated retail cost of service. This difference, adjusted for the Texas Franchise Tax, would be the Rider DCRF adjustment that would be collected from or returned to customers. The Rider DCRF adjustment would be a volumetric adjustment and effective for 12 months.

Should the Commission decline to implement Rider DCRF as proposed by CenterPoint, CenterPoint recommended raising the residential fixed monthly customer charge for "base" components from $1.68 to $18.18. "While this alternative does not address all the issues [addressed by Rider DCRF], this increased fixed residential customer charge will have the benefit of reducing billing determinant risk for both the customer and the Company," CenterPoint said.

For a customer using 1,000 kWh per month, CenterPoint said the higher fixed customer charge would only raise monthly bills by $1.31. However, the bill impact would increase as customers use less electricity.

As with all of CenterPoint's charges, the higher fixed residential customer charge would be charged to REPs, as CenterPoint noted that it would be at the REP's discretion on how to recover such costs from customers. While some REPs may simply pass through CenterPoint's new rate design, CenterPoint speculated that some REPs may continue recovering distribution costs based on the current cost allocation which is more volumetric.

"When any rate design structure is changed, one set of customers will pay less under the new design and another set of customers will pay more. This is generally true of any change in any market. A REP that wishes to market to, and gain customers that benefited from the previous rate design, would still be free to maintain its current Customer Charge in an attempt to gain or retain those customers. This outcome may actually benefit the deregulated market as it would create another opportunity for REPs to differentiate themselves and their product offerings in an attempt to 'compete,'" CenterPoint said.

CenterPoint limited its fixed customer charge proposal to residential customers at this time, and it is not seeking a higher fixed customer charge for non-residential customers, acknowledging that its residential proposal represents a departure from the current ratemaking approach.

CenterPoint requested that the Commission bifurcate the legal, policy, and factual issues relating to the alternative ratemaking mechanism (the DCRF) proposed in its rate case, and asked that the Commissioners themselves preside over a one-day initial hearing on the merits of that proposed mechanism. CenterPoint asked that the case not be assigned to the State Office of Administrative Hearings until its motion for such bifurcation is decided.

CenterPoint urged the Commission to set a "competitive" rate of return, citing its business risks. Among these is the potential default of REPs from whom CenterPoint collects delivery charges, particularly given the concentration of the revenue requirement between two REPs.

"One such risk stems from the fact that a high concentration of the Company's revenues is dependent on a relatively small number of customers. While the Company conducts business with approximately 80 retail electric providers ('REPs'), the revenue received from just two of those 80 REPs accounted for more than half of the Company's 2009 test year revenues. This, in turn, exposes the Company to a high risk of adverse financial effects if either of these two REPs defaults on its payments or files for bankruptcy," CenterPoint said.