Energy Choice Matters
August 10, 2010

Md. PSC Staff Supports Including Additional Customer Service Costs in SOS Admin Charge

Maryland PSC Staff have recommended including additional costs in the SOS Administrative Charge of Pepco and Delmarva, to account for costs incurred in supplying customers with power but which are currently collected in distribution rates (Cases 9226, 9232).

Specifically, Staff testified that the following costs be included in the bypassable SOS Administrative Charge as a new "Allocated Cost" component:

- Customer accounts expenses
- Billing expenses
- Credit and collection expenses
- Customer service expenses
- Customer information expenses

Staff said that such expenses are classified as Customer Accounts Expense Operations and Customer Service and Information Expense Operations in FERC's Uniform System of Accounts. Staff said that such costs should be allocated to the Administrative Charge based on the SOS portion of the utilities' electric revenues.

Similar to the current mechanism, such costs would be collected only from SOS customers, but would then be credited, through the Administrative Credit, to all distribution customers. In this way, SOS customers are properly allocated such costs in the absence of the full unbundling of distribution rates, Staff said.

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Morgan Stanley, Laredo WLE Urge PUCT for Rulemaking on Quick Start Units

Morgan Stanley Capital Group Inc. and Laredo WLE, LP urged the PUCT to address issues involving Quick Start Units in the nodal market after withdrawing their complaint against an ERCOT Protocol interpretation, stating that, as a result of ERCOT's request for hearings on the complaint, the legal expense of litigation will exceed the amounts in dispute (38350).

A discussion of issues involved in the complaint is contained in our 6/15/10 issue. The complainants were seeking Out of Merit Capacity payments for their units, but were paid for Out of Merit Energy.

Morgan Stanley and Laredo claimed that, "[u]pon the Texas Nodal Market Implementation Date, the operational flexibility and value propositions of Quick Start Units are ignored."

"Balancing Energy Service does not exist under Nodal. That is, there exists no systematic market-based process to issue unit commitment decisions to Quick Start Units within the Operating Hour. Given that Quick Start Units represent a significant portion of the Zonal Balancing Energy supply stack; this is a serious and fundamental problem with the Real Time processes under Nodal," Morgan Stanley and Laredo said.

"SCED [security constrained economic dispatch], the most similar process to Zonal's Scheduling,

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United Illuminating Reports July Migration Data

Supplier Accounts as of 7/31/10	July '10 Residential	July '10 Business	July '10 Total	% of Migrated Customers	Change vs. June '10 Total
Cianbro		3	3	0.0%	0
Clearview Electric	2,094	30	2,124	1.9%	(114)
ConEdison Solutions	4,301	1,116	5,417	4.8%	119
Constellation NewEnergy	427	2,543	2,970	2.6%	(3)
Direct Energy Business	12	1,108	1,120	1.0%	(180)
Direct Energy Services	13,441	2,588	16,029	14.2%	(84)
Discount Power	2,506	647	3,153	2.8%	361
Dominion Retail	13,459	1,250	14,709	13.0%	51
Energy Plus Holdings	5,638	764	6,402	5.7%	114
Gexa Energy	315	377	692	0.6%	30
Glacial Energy	29	248	277	0.2%	(9)
Hess Corporation	48	518	566	0.5%	(3)
Integrys Energy Services	160	1,822	1,982	1.8%	194
Liberty Power	2	80	82	0.1%	10
MXenergy	14,190	548	14,738	13.1%	1,214
North American Power	6,556	766	7,322	6.5%	2,035
Public Power & Utility	13,998	1,339	15,337	13.6%	450
ResCom Energy	5,960	540	6,500	5.8%	(37)
Sempra Energy Solutions	28	698	726	0.6%	(6)
South Jersey Energy Co.		1	1	0.0%	0
Starion Energy	1,103	362	1,465	1.3%	164
Suez Energy Resources NA	3	277	280	0.2%	(4)
TransCanada	8	469	477	0.4%	0
Verde Energy	5,363	139	5,502	4.9%	110
Viridian Energy	4,396	596	4,992	4.4%	250
Total All Suppliers	**94,037**	**18,829**	**112,866**	100.0%	4,662

Aggregate Data

Customer Load - Suppliers and UI (MWh)

	Residential - SS		Business - SS		Business - LRS		Total UI Territory	
	MWh	% of Class	MWh	% of Class	MWh	% of Class	MWh	% of Total
Suppliers	91,757	34.9%	164,270	74.2%	145,777	94.2%	401,804	62.9%
UI	171,384	65.1%	57,070	25.8%	8,900	5.8%	237,354	37.1%
Total	263,141		221,340		154,677		639,158	

Customer Count - Suppliers and UI

	Residential - SS		Business - SS		Business - LRS		Total UI Territory	
	Customers	% of Class	Customers	% of Class	Customers	% of Class	Customers	% of Total
Suppliers	94,037	32.5%	18,559	49%	270	92.5%	112,866	34.4%
UI	195,513	67.5%	19,348	51%	22	7.5%	214,883	65.6%
Total	289,550		37,907		292		327,749	

LRS = Last Resort Service; SS = Standard Service

Data as reported by UI

Briefly:

Reliant Energy Applies for New Jersey Electric License

Reliant Energy confirmed that it has also applied for a New Jersey electric supplier license to serve commercial and industrial customers. As only reported in *Matters* yesterday, Reliant is seeking a Pennsylvania electric supplier license as well. "Expansion of our C&I business into PJM is a natural extension of the success of our complementary retail and generation businesses in Texas, where Reliant is the largest supplier in the country's largest C&I market. Reliant's strategy is to leverage its deep experience in retail electricity supply and NRG's generation presence in the region to create innovative power supply solutions for large commercial, industrial and institutional customers in the states served by PJM," said Pat Hammond on behalf of Reliant. As would be expected, part of Reliant's initial strategy upon licensing will be signing accounts for national customers which it already serves in ERCOT; however, Reliant's expansion in PJM will not be limited to only serving national accounts.

Rapid Power Management Granted D.C. Broker License

The District of Columbia PSC granted Rapid Power Management, LLC an electric broker license to serve commercial and industrial customers.

Price Point Energy Seeks Pa. Electric License

Start-up Price Point Energy, LLC applied for a Pennsylvania electric broker license to serve all customer classes in all service areas. Price Point Energy is led by James Stinson, former Senior Counsel for both Integrys Energy Services and Strategic Energy.

Electric Advisors Seeks Expanded Pa. Broker License

Electric Advisors, Inc. applied for an amendment to its Pennsylvania electric broker license to serve customers in all service areas in addition to its current authority to serve customers at PPL and Duquesne Light.

Aero Energy Applies for Maryland Gas Supply License

Aero Energy (Mid-Atlantic Cooperative Solutions, Inc.) applied for a Maryland natural gas supplier license. A copy of its application was not available. As only reported by *Matters*, Aero Energy is ultimately owned by Adams Electric Cooperative and Choptank Electric Cooperative, and is also seeking a Pennsylvania gas supplier license (Only in Matters, 7/30/10).

EDF Trading North America Seeks Maryland Gas Supply License

EDF Trading North America, LLC applied for a Maryland natural gas supplier license. A copy of its application was not available.

Algonquin Energy Services Seeks Maryland Electric License

Algonquin Energy Services, Inc. applied for a Maryland license to supply electricity or electric generation services. A copy of its application was not available.

Bmark Energy Seeks Maryland Broker License

Bmark Energy, Inc. applied for a Maryland electric broker license. A copy of its application was not available.

E Source Companies Seek Maryland Broker Licenses

E Source Companies, LLC filed for Maryland electric and natural gas broker licenses. Copies of the applications were not available.

Energy Edge Consulting Seeks Maryland Broker License

Energy Edge Consulting applied for a Maryland electric broker license. A copy of its application was not available.

Affinity Energy Management Seeks Maryland Broker License

Affinity Energy Management, LLC applied for a Maryland electric broker license. A copy of its application was not available.

Utility Choice International Seeks Maryland Broker Licenses

Utility Choice International, LLC filed for

Maryland electric and natural gas broker licenses. Copies of the applications were not available.

Reliable Power Selects EC Infosystems for Backoffice Services

Start-up Connecticut electric supplier Reliable Power has selected EC Infosystems for EDI Processing and Billing/CIS systems, citing EC Infosystems' ability to handle aggressive expansion and its reputation for dependable customer support. EC Infosystems said that it continues to hold a majority share of the nation's EDI processing workload.

Florida Public Utilities Purchases Indiantown Gas Company Operating Assets

Florida Public Utilities Company has purchased the natural gas operating assets of Indiantown Gas Company, which provides natural gas transportation service to approximately 700 customers after previously exiting the merchant function. Florida Public Utilities, a unit of Chesapeake Utilities Corporation, operates a commercial choice program in its service area. Terms were not disclosed. Florida Public Utilities will provide service to Indiantown Gas natural gas customers under the terms of the existing tariff with the Florida PSC.

MISO Net Revenues Inadequate for Combustion Turbine, Combined Cycle Unit

Despite the introduction of a voluntary capacity auction and ancillary services market, net revenues for a hypothetical combustion turbine and combined cycle plant remained substantially below the estimated annual cost of entry in the Midwest ISO, according to the 2009 State of the Market report by Independent Market Monitor Potomac Economics.

Net revenues for a new combined cycle generator in 2009 ranged from $22,000 to $49,000 per MW-year depending on MISO region, while net revenues for a new combustion turbine ranged from $20,000 to $29,000 per MW-year.

The estimated cost of new entry for a new combustion turbine increased from $90 per kW-year in 2008 to $96 per kW-year in 2009 due primarily to an increase in capital costs. Likewise, the cost of entry for a new combined cycle unit increased to more than $130 per kW-year. These annualized costs far exceed the estimated net revenues in even the highest-cost areas.

Potomac Economics called the results, "consistent with expectations for a well-functioning market because the prevailing capacity surplus and relatively low load should not produce incentives to build new resources."

Among several recommendations made by Potomac Economics is to remove inefficient barriers to capacity trading with adjacent areas by:

a) Modifying deliverability requirements for external resources to establish a maximum amount of capacity imports by interface that can be utilized to satisfy LSEs' capacity requirements; and

b) Working with PJM to identify transmission access, deliverability, and issues related to capacity obligations that may create inefficient barriers to exporting capacity to PJM.

"These changes should allow participants to be able to more effectively arbitrage capacity price differences between markets to the extent that the physical transmission capability allows. Ultimately, this will cause both markets to send more efficient long-term price signals and improve the stability of the RTOs by reducing incentives for participants to alter RTO membership," Potomac Economics said.

To achieve better price convergence with PJM, Potomac Economics recommended that the RTOs consider expanding the Joint Operating Agreement to optimize the interchange between the two areas. This could be accomplished by allowing participants to submit offers to transact within the hour if the spread in the RTOs' real-time prices is greater the offer price. This type of change or others that will allow the interface between the markets to be more fully utilized would generate substantial benefits by allowing lower-cost resources in one area to displace higher-cost resources in the other area, Potomac Economics added.

Potomac Economics also recommended developing improved "look-ahead" capabilities in the real-time that would improve the commitment of quick-starting gas turbines and the management of ramp capability on slow-ramping units.

Md. SOS ... from 1

"If SOS costs are subsidized by distribution rates, it would make it more difficult for competitive suppliers to enter the market and attract customers, and it would violate the principle of cost causation," Staff testified

Staff cited precedent for including such costs in a bypassable commodity rate, citing BGE's Gas Administrative Charge which includes a credit and collections component.

Staff's new SOS Administrative Charge would include: (1) a Return Component, (2) an Incremental Cost Component, (3) a Cash Working Capital (CWC) Component, and (4) an Allocated Cost Component.

Staff proposed retaining the existing return levels as set in Case 8908. Staff testified that it is important for the utilities to earn a reasonable return for providing SOS, citing statute. "It is important that the Companies continue to be allowed to earn a reasonable return that compensates them for the business risks of providing SOS," Staff said.

Furthermore, Staff proposed retaining the current amount of the Incremental Cost Component for Type I and Type II customers, except that no portion of Cash Working Capital Costs will be considered to be collected as part of the Incremental Cost Component. Staff's proposal would set the Incremental Cost Component at 3.5 mills/kWh for Type I customers and 4.0 mills/kWh for Type II customers. For hourly customers, Staff would set the Incremental Cost Component at 0.75 mills/kWh.

For the residential customers, Staff proposed combining the 0.5 mills/kWh designated for incremental costs with the 2 mills/kWh designated for uncollectibles to create a 2.5 mills/kWh Incremental Cost Component.

Staff recommended allowing Pepco and Delmarva to adjust Cash Working Capital costs to reflect the shorter PJM settlement cycle, but rejected as unsupported the utilities' other requested Cash Working Capital adjustments, such as those intended to reflect higher commodity costs and changes in procurement and weighted revenue lag days.

As done currently, Staff supported setting the Cash Working Capital Component as the cost of Cash Working Capital less the amount of Cash Working Capital considered to be collected as part of the Return Component of the Administrative Charge. Staff said that increased amounts to be recovered for Cash Working Capital should be part of the bypassable Administrative Charge rather than directly added to the SOS commodity rate.

Staff's Administrative Charge would be updated annually June 1 to reflect actual Cash Working Capital Costs. Additionally, the Administrative Credit paid to all distribution customers would be adjusted each June 1, to reflect revenue collected by the Incremental Cost Component less actual incremental costs, in addition to the refund of the Allocated Cost Component.

Staff proposed that the higher Cash Working Capital recovery costs take effect immediately upon a Commission order, and that its other proposed changes, such as the new Allocated Cost Component, take effect June 1, 2011.

Intervenor Testimony

The Office of People's Counsel opposed continued payment of the Administrative Credit to all distribution customers.

"This treatment of Administrative Adjustment revenues - collection from residential SOS customers, and refund to all residential distribution customers - gives rise to slight cross-subsidization of switching customers by SOS customers, since customers that switch to competitive retail supply will not be charged the Administrative Adjustment, but will be credited a portion of the revenues," OPC testified.

OPC characterized the nonbypassable nature of the Administrative Credit as a mechanism meant to jumpstart the retail market, and said that it no longer serves a useful purpose. "After a decade of competition in the supply of electricity to consumers, the retail market is fully developed and mature. At this point, it is neither necessary nor reasonable to charge SOS customers more than the actual cost of residential SOS - and to require that SOS customers subsidize customers served by retail suppliers in the process of crediting Administrative Adjustment revenues - in order to provide an artificial competitive edge to retail suppliers," OPC said.

The People's Counsel opposed including a Return Component in SOS rates, arguing that the utilities are already compensated with a return for the provision of SOS in their return included in base rates. "SOS service is ... inextricably tied to the routine provision of utility service. It is not a stand-alone service that has risks different and apart from the provision of normal utility service - it is utility service," which is covered under the utilities' normal return, OPC said.

OPC further testified that since SOS is a service, not an asset, it is inappropriate to allow a return to be earned on it, just as it is not permissible to allow utilities to earn a return on other costs of doing business such as, "line worker's salaries [and] paper clips."

OPC would allow a return solely on SOS Cash Working Capital costs, but would use the cost of short-term debt to calculate such costs. Based on using short-term debt to account for the incremental changes to Cash Working Capital costs, OPC recommended the following Cash Working Capital components in SOS rates, with the utilities' proposed rates provided for comparison:

OPC vs. Companies' Recommended CWC Costs ($/MWh)

	OPC		Company	
	Pepco	Delmarva	Pepco	Delmarva
Residential	$0.700	$0.540	$1.230	$1.118

OPC further said that the fixed Incremental Cost Component in the SOS Administrative Charge should be replaced with a rate set to recover actual, verifiable, and prudently incurred incremental costs, established through an annual review of such costs.

At Pepco, OPC recommended that the Administrative Charge for residential SOS customers be initially set as follows:

Incremental Cost	0.19 mills/kWh
Uncollectible Cost	1.59 mills/kWh
CWC Cost	0.70 mills/kWh
Total Administrative Charge	2.48 mills/kWh

That compares to Pepco's proposal of:

Incremental Cost	0.5 mills/kWh
Return	1.5 mills/kWh
Uncollectible Cost	1.6 mills/kWh
Administrative Adjustment	0.4 mills/kWh
Total Administrative Charge	4.0 mills/kWh

Pepco would also charge an additional 0.94 mills/kWh for Cash Working Capital costs not included in the Administrative Charge (and instead added to the SOS commodity rate).

OPC's reduced Incremental Cost Component reflects the average incremental costs OPC said that Pepco actually incurred in the 2004-05 through 2008-09 SOS years. During this time, the higher 0.5 mills Incremental Cost Component charged by Pepco led to profits of nearly $8.0 million for Pepco as the revenue exceeded actual costs, OPC said.

At Delmarva, OPC recommended that the Administrative Charge for residential SOS customers be initially set as follows:

Incremental Cost	0.31 mills/kWh
Uncollectible Cost	1.39 mills/kWh
CWC Cost	0.54 mills/kWh
Total Administrative Charge	2.24 mills/kWh

That compares to Delmarva's proposal of:

Incremental Cost	0.5 mills/kWh
Return	1.5 mills/kWh
Uncollectible Cost	1.4 mills/kWh
Administrative Adjustment	0.6 mills/kWh
Total Administrative Charge	4.0 mills/kWh

Delmarva would also charge an additional 0.6 mills/kWh for Cash Working Capital costs not included in the Administrative Charge (and instead added to the SOS commodity rate).

OPC's reduced Incremental Cost Component reflects the average incremental costs OPC said that Delmarva actually incurred for the 2004-05 through 2008-09 SOS years. During this time, the higher 0.5 mills Incremental Cost Component charged by Delmarva led to profits of $1.8 million for Delmarva as the revenue exceeded actual costs, OPC said.

The Apartment and Office Building Association of Metropolitan Washington offered similar testimony on several issues to that of OPC. Specifically, AOBA supported using short-term debt costs in calculating Cash Working Capital costs, and said that Pepco has overstated its costs. AOBA also supported an annual reconciliation of such costs.

"Although some competitive marketers may support Pepco's efforts to increase its Administrative Charge for SOS to improve the margins they can make on the competitive services that they offer in Pepco's Maryland service territory, all customers are best served by making Pepco's charges for SOS as close to cost-based levels as possible," AOBA testified.

Furthermore, AOBA urged the Commission to end the current dichotomy in the Return Component under which a higher return is applied to non-residential SOS. AOBA testified that no risks have been cited to justify imposing a higher Return Component on non-residential customers, noting that the only class-specific risks cited by Pepco in providing SOS both relate to residential customers: the phase-in of rate hikes in 2006, and the regulatory lag associated with residential uncollectibles. AOBA testified that, at a minimum, all SOS classes should be charged an equal Return Component (if any is charged at all), which AOBA calculated to be $0.00165 per kWh.

Quick Start ... *from 1*

Pricing, and Dispatch ('SPD'), cannot issue Base Points to Resources that are Off-line. Quick Start Units, some of which can deliver energy within a single 5-minute SCED Interval, can provide market-based solutions but are ignored during the SCED process. The systematic disregard of 1,500 MW of the supply stack will lead to unnecessarily higher Real Time prices," Morgan Stanley and Laredo contended.

"Hourly Reliability Unit Commitment ('HRUC'), which is a cost-based mechanism, issues unit commitment decisions throughout the Adjustment Period, well in advance of Quick Start Unit capabilities. HRUC (a) ignores the operational flexibility of Quick Start Units, (b) deprives the Market Participant of its right to self commit within its capability, and (c) subjects the Qualified Scheduling Entity's ('QSE') revenues to RUC Clawback. Therefore, before the implementation of NPRR222, Quick Start Units will be penalized under the Nodal Market," Morgan Stanley and Laredo said.

"In order to meet the Texas Legislature's mandate that electricity 'prices should be determined by customer choices and normal forces of competition', a SCED look-ahead process that issues unit commitment decisions based on offers from Quick Start Units should be considered," Morgan Stanley and Laredo urged.

Morgan Stanley and Laredo also criticized the ERCOT dispute process as "flawed" with regard to challenging ERCOT's ruling on a dispute and the timeliness with which ERCOT responds to disputes. Among other things, Morgan Stanley and Laredo claimed that the alternative dispute resolution process, "is significantly biased towards ERCOT's initial dispute decision."

"An illustration is that ERCOT Legal communicated with ERCOT Settlements and Disputes departments, then ruled to deny the LEC 5 Dispute, before opening a dialogue with the QSE and Resource Entity to discuss the ADR in an open forum," Morgan Stanley and Laredo alleged. Morgan Stanley and Laredo further criticized the time it takes for ERCOT to respond to disputes, and said ERCOT's denial of their dispute was not explained during the dispute resolution process and was not substantiated with an explanation until a complaint was filed with the PUCT.