Energy Choice Matters

August 17, 2010

Maryland PSC to Hold Conference on Whether RPM Should be Abandoned, Changed

After seven Base Residual Auctions under PJM's Reliability Pricing Model which have failed to attract significant new generation in Maryland, and with all indications that no new generation is on the horizon in Maryland as a direct result of RPM, the Maryland PSC scheduled a two-day public conference (PC 22) regarding, "whether RPM is fulfilling its intended purpose, whether and how RPM should be abandoned or changed, and how the Commission's regulations and policies might affect participation in the capacity market."

"If the Commissioners were asked by the public to explain the purpose of the capacity market and the benefit customers receive from capacity payments, what should they say," the Commission bluntly asked stakeholders in a request for comments.

The Commission noted that the clearing price for the MAAC Locational Deliverability Area, which includes Baltimore Gas and Electric, was a record high $226.15/MW-day in the 2013-14 base residual auction. The resource clearing price for the Pepco Locational Deliverability Area was $247.14/MW-day, in the first year of its modeling.

"[B]ecause these zones cleared just under the Net Cost of New Entry ('Net CONE'), these prices will not, under the theory underlying RPM, incent new generation in Maryland or the relevant zones," the PSC noted.

"Between June 1, 2013 and May 31, 2014, Maryland consumers can expect to pay roughly $1 billion dollars more in capacity payments than consumers paying the system clearing price with no

Continued P. 5

FERC Rejects Change to Forward Reserve Market Credit Formula Opposed by Retailers

Concerned that an "eleventh hour" change would upset the expectation of load serving entities, FERC denied an application by ISO New England to change the Forward Reserve credit formula used to calculate payments in the Forward Reserve Market (FRM).

Under the Forward Reserve credit formula, the payment made to suppliers of Locational Forward Reserves subtracts from the Forward Reserve Clearing Price the Forward Capacity Clearing Price for the relevant capacity zone. However, generators, claiming an "oversight," said that the actual Forward Capacity Market (FCM) payment rate for all resources in the Connecticut Zone that were denied the ability to pro-rate (due to reliability concerns) despite a surplus in the FCM is lower than the Forward Capacity Clearing Price (ER10-1690). More specifically, Connecticut capacity resources will be paid $4.25/kW-month for capacity, versus the full clearing price of $4.50/kW-month.

ISO-NE and generators sought to change the Forward Reserve credit formula in the upcoming August auction for such Reserve Zone situations so that the lower actual capacity payment is deducted from the FRM price (i.e. $4.25/kW-month) rather than the capacity clearing price (i.e. $4.50/kW-month).

The Retail Energy Supply Association opposed the last-minute change to the August auction,

Continued P. 5

Briefly:

Direct Energy Begins Marketing to Pepco Maryland Residential Customers

Direct Energy has begun marketing to residential and small commercial customers in the Pepco territory in Maryland. Similar to its other Maryland residential offers, Direct Energy is initially offering Pepco customers a variable rate which is guaranteed to be at least 7% below the applicable SOS rate through May 2011. Direct is currently active as a mass marketer in the other three Maryland investor-owned electric utility service areas.

Mint Energy Seeking Conn., Mass., Pa. Licenses

Mint Energy, LLC has applied for electric supplier licenses in Connecticut, Massachusetts, and Pennsylvania. In Connecticut, Mint Energy has applied to only serve commercial and industrial customers. Mint Energy is an affiliate of Patriot Energy Group, Inc., and Patriot Power, LLC, and is led by Patriot co-founders David Reinfeld and Louis Frate. John Allario will serve as Vice President of Finance and Risk at Mint Energy. Allario is currently Vice President of Business Development at Patriot Energy Group, and has served in risk management and finance roles at several suppliers including Amerada Hess and Sempra Energy Trading.

Manhattan Energy Seeks Pa. Broker License

Manhattan Energy, LLC applied for a Pennsylvania electric broker license to serve commercial customers over 25 kW and industrial customers in all service areas.

UI Posts Last Resort Rates

United Illuminating has posted Last Resort Service rates for the three-month period beginning October 1, 2010.

GST, LPT*, NUS	On-Peak	Off-Peak
October	8.2742¢/kWh	7.4342¢/kWh
November	8.4992¢/kWh	7.6642¢/kWh
December	8.9762¢/kWh	8.2702¢/kWh

Rate LPT Shoulder & Off-Peak price is the same

WGES Agrees to Marketing Changes at Request of Montgomery County OCP

The Office of Consumer Protection of Montgomery County, Md., said that it has reached an agreement with Washington Gas Energy Services for WGES to revise what OCP alleged were "misleading" direct mail solicitations for electric supply. According to OCP, WGES agreed that any future advertisements offering "guaranteed savings" would contain more prominent disclosure of the terms and conditions limiting the applicability of any such guarantee. The agreement also includes modifications to the automatic renewal provisions as well as WGES' right to terminate the contract, and provides for better disclosure of customer cancellation rights. OCP further said that WGES agreed to ensure that all door-to-door sales agents are licensed. WGES did not agree that it had violated any consumer protection laws.

BGE to Move Forward With AMI Deployment

Baltimore Gas & Electric informed the Maryland PSC that it will proceed with its advanced meter implementation program under the conditions imposed by the PSC in an order issued Friday (Matters, 8/16/10).

NYISO to Revise LBMP Calculation Method for Interface Pricing

The New York ISO said that it has developed revisions to the LBMP calculation method for interface pricing which will recognize the physical distribution of flow around Lake Erie (including parallel flows) when determining the impact that all resources, including internal generation and external interchange, have on transmission constraints, NYISO said in a report to FERC on Lake Erie loop flow issues (ER08-1281). NYISO said that it and its stakeholders propose to maintain the existing Commission-approved path validation process preventing circuitous path scheduling until such time as the effectiveness of the physical and market solutions to loop flow have been demonstrated. The revised LBMP calculation method is designed to apply to the existing network configuration, without the availability of Phase Angle Regulators to match actual power flows to schedules at the Ontario-Michigan border. The NYISO currently estimates a Q3 2011 implementation timeframe.

ERCOT Sets Another Peak, DNP Moratoriums In Effect

ERCOT set a new peak demand of 64,805 MW yesterday between 3 p.m. and 4 p.m. CenterPoint Energy is in the middle of a heat-related disconnect for non-pay moratorium that runs through at least August 19. The Texas-New Mexico Power Central and North Texas service areas are also under a disconnect for non-pay moratorium through at least August 19.

MAPP Service Date Delayed Until 2015

PJM has revised the in-service date for the Mid-Atlantic Power Pathway to be no later than June 1, 2015, a revision from the previous date of June 2014.

Consumers Energy Proposes Changes Regarding In-Kind Gas Returned to Suppliers

Consumers Energy has proposed tariff changes relating to use of storage by alternative gas suppliers meant to ensure that, "gas will only be held in storage for those customers actively taking service and using the gas." The proposed tariff changes are contained in Consumers' newly filed natural gas rate case (U-16418).

Currently, Rule F1 contains a procedure to address situations where the MMBtu delivered by a supplier exceeds the billed customer consumption for the year being reconciled, but these procedures are only triggered in the event that the supplier's price is higher than that of Consumers, and not in other situations.

Among other things, the tariff currently provides that, for gas volumes returned in-kind to the supplier in cases where the supplier's price exceeds Consumers' price, the supplier shall have until the end of the second full month from when the reconciliation statement is distributed to remove the volume from its storage pool. After two months, Consumers may impose a holdover fee or implement cash-out procedures.

Consumers is proposing to apply this same procedure whenever supplier deliveries exceed consumption, regardless of the price of the supplier compared to that of Consumers, "since the problems this procedure is intended to address is independent of the pricing relationship of the gas."

"This approach will ensure that gas storage is available to the fullest extent possible for customers needing gas rather than being held for customers who are not carefully managing their supply. This means that, regardless of the price of gas, gas will only be held in storage for those customers actively taking service and using the gas. It will no longer be possible for customers to tie up a portion of the Company's storage capacity for extended periods, while waiting for economics to justify its movement," Consumers said.

Additionally, Consumers has proposed requiring alternative gas suppliers to submit rate changes for their customers a minimum of four business days before the start of each billing month.

Currently, suppliers may submit price changes to Consumers as little as 48 hours before the beginning of each billing month.

"[G]iven the number of customers and suppliers participating in this [choice] program, additional notice is required in order to accurately process the information," Consumers said.

For transportation service, Consumers has proposed an equal percent decrease in annual revenue for Transportation Service Rates ST and LT of 5.93%, and no overall revenue change for Rate XLT.

Specifically, Consumers would decrease the Rate ST Customer Charge from $575.00 per month to $560.00 per month, the Rate LT Customer Charge from $3,132.50 per month to $2,835.00 per month, and the Rate XLT Customer Charge from $8,045.90 per month to $5,713.10.

The proposed Distribution Charge for cost-based rates would be decreased for Rate ST from $0.8813 per Mcf to $0.8212 per Mcf, for Rate LT from $0.5744 per Mcf to $0.5482 per Mcf, and increased for Rate XLT from $0.4548 per Mcf to $0.4774 per Mcf. Consumers said that these charges maintain the economic break even points between Rate ST and Rate LT (100,000 Mcf annually), and between Rate LT and Transportation Service Rate XLT (500,000 Mcf annually), and also provide for recovery of the transportation annual revenue requirement.

Consumers would also modify the transportation charge adjustment associated with each Authorized Tolerance Level as follows:

Authorized As a % of ACQ Tolerance Level	Transportation Charge Adjustment ($/Mcf) Current	Proposed
6.5%	($0.0532)	($0.0509)
7.5%	($0.0266)	($0.0254)
8.5%	$0.0000	$0.0000
9.5%	$0.0266	$0.0254
10.5%	$0.0532	$0.0509

The amount of gas retained under the Allowance for Use and Loss would increase to 2.12% from 1.83%.

Staff Finds WGL POR Rehearing Petition Unnecessary

Maryland PSC Staff opposed Washington Gas Light's application for rehearing of the PSC's order on WGL's Purchase of Receivables program, interpreting the Commission's June letter order as making WGL's petition unnecessary.

As only reported in Matters, WGL has sought rehearing because the Commission excluded the proposed 0.25% risk factor from the discount rate. WGL stressed that the risk factor was intended to ensure that WGL is protected against the under-recovery of bad debt, because its reconciliation component as filed excludes bad debt from any reconciliation. WGL sought rehearing to provide that bad debt may be included in the reconciliation component given the rejection of the risk factor (Only in Matters, 7/19/10).

Staff, however, found that in its June order the Commission determined that the reconciliation factor should generally provide for recovery of under-collected costs or provide a credit for over-collection of costs. Such a determination, "appears to encompass the over or under-collection of bad debt expense experienced through application of the approved bad debt expense ratio," Staff said, thus finding that revision to the June letter order is not required to answer WGL's concerns.

The Maryland Energy Marketers Coalition supported WGL's rehearing request to clarify that WGL may reconcile bad debt costs.

Competitive Suppliers Seek Rehearing of ISO-NE Credit Order on Corporate Guarantees

The New England Credit Policy Coalition, comprised of several competitive wholesale and retail suppliers, sought rehearing of FERC's July order which denied the selective elimination of unsecured credit in ISO New England, but did approve the elimination of corporate guarantees as a form of credit.

In the July order, FERC rejected ISO New England's application to selectively eliminate the use of unsecured credit for all market participants except utilities serving customers at administratively set rates, such as POLR providers (ER10-942).

Competitive suppliers said that by accepting the proposal to eliminate corporate guarantees, "the July 15 Order will lead to the same discriminatory result and adverse market impacts that would have resulted from implementation of the original proposal to eliminate unsecured credit."

"Coalition members and other Competitive LSEs regularly rely on guarantees provided by their corporate parent to meet their creditworthiness requirements, and the elimination of this widely used and cost-effective method of ensuring creditworthiness will have significant adverse impacts on those market participants. On the other hand, the group of state-regulated market participants to whom ISO-NE and NEPOOL proposed to continue to extend unsecured credit in the March 26 Filing would be unaffected by the elimination of corporate guarantees," the Credit Policy Coalition said.

"Under such an approach, state-regulated cost-of-service suppliers would have a competitive advantage due solely to a regulatory construct that requires them to produce financial statements (and at their discretion, a standalone credit rating) as compared to the remaining market participants - the Competitive LSEs - that generally do not maintain subsidiary level audited financial statements, relying instead on corporate guarantees," the Coalition added.

"The elimination of corporate guarantees will skew the market by imposing costs on Competitive LSEs that would not be similarly assessed on state-regulated service providers," since it is likely the ISO will require competitive LSEs to post letters of credit.

While FERC's order characterized the elimination of corporate guarantees as not subject to protest, the Credit Policy Coalition said that the proposal was integrated with the larger elimination of unsecured credit, which the Coalition protested.

Md. PSC Authorizes Pepco to Proceed with AMI Deployment

The Maryland PSC authorized Pepco to proceed with the deployment of advanced meters in an abbreviated order issued to facilitate the receipt of federal stimulus funding (Case 9207).

The abbreviated order does not address the granular details of Pepco's proposed dynamic SOS rates, which is left to a future order. The PSC did order that, as part of an updated business case required to be submitted, Pepco shall explain how it will fund dynamic pricing rebates, including its plans to monetize peak demand and energy reductions that the smart meter system will enable.

In its original testimony, Pepco proposed defaulting SOS customers to a critical peak rebate generation rate, with optional generation service under critical peak pricing, or SOS rates without the peak time rebate.

The Commission's abbreviated order was limited to Pepco, and did not address Delmarva which jointly filed for the same advanced metering program.

RPM ... from 1

locational adders," the Commission added.

The Commission was especially concerned with a decrease in the demand response which cleared the 2013-14 auction. "RPM has not only failed to attract new generation, RPM has also not attracted a sustained increase in demand response participation. The just-completed auction results show the amount of demand resources offered in the BGE zone declined by 268.1 MW from the previous year, and the amount of demand resources cleared decreased by 210.4 MW. This outcome was highly unexpected, given the aggressive efforts in Maryland to encourage demand resources and recent changes to RPM that were promoted as being favorable to such resources," the PSC said.

That prompted the Commission to ask whether it should, "monitor or regulate the participation of regulated electric companies with regard to their capacity offers of Demand Response and Energy Efficiency."

The Commission also sought comments on modifications to RPM that could facilitate more levelized capacity prices throughout the RTO, and comments on PJM's duty, if any, to facilitate such levelized prices.

"What changes could be made to RPM that would stimulate increased generation and demand response investment in Maryland? Should RPM be kept as is, amended or abandoned," the Commission asks.

The Commission also sought an explanation for the difference between the MAAC and Pepco prices and the rest-of-RTO clearing price of $27.73/MW-day, and the difference between the 2013-14 locational adders, and the much lower locational adders seen in the 2012-13 auction.

"What value or benefit will customers in the MAAC zones receive in exchange for the higher capacity prices they will pay in 2013-14," the Commission asks.

The two-day conference will be held on October 14-15 in Annapolis.

FRM ... from 1

arguing that it would harm load serving entities by imposing a new charge on retail suppliers, which have entered into fixed price contracts with customers and cannot pass-through such new costs (Matters, 7/23/10).

FERC noted that the ISO and generators were aware of the proration issue in March 2008, but waited until six weeks prior to the Forward Reserve Auction to propose changes to the reserve market rules.

"LSEs had a reasonable expectation that the current FRM settlement rules would remain in effect for the upcoming FRM auction based on, among other things, ISO-NE's opposition to the proposed tariff changes as late as June 16, 2010," FERC concluded.

Furthermore, FERC found compelling RESA's conclusion -- originally contained in an ISO memo -- that the proposed revisions are unnecessary because a resource offering into the Forward Reserve Market will, under competitive conditions, offer at its incremental cost to provide forward reserves plus whatever capacity rate will be netted in the settlement process.

"We find no evidence to support the claim that the current FRM settlement rules contain an 'oversight' concerning how resources providing forward reserve services in Connecticut will be compensated for the upcoming winter capability period. On the contrary, the ISO-NE memo states that the 'FRM conforming changes were developed recognizing that while different resources may receive different FCM payment rates ... the Capacity Clearing Price from the FCA applicable to the reserve zone for the relevant time period is always netted from the FRM payment,'" FERC said.