Energy Choice Matters

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Long-Term Contracts Not Appropriate for Standard Service, DPUC Finds in Draft

Long-term bilateral contracts should not be used for standard service at this time, due to risks to ratepayers and the competitive market, the Connecticut DPUC found in a draft decision yesterday (07-06-58, 06-01-08RE01).

However, short-term bilaterals, up to four years in length, would be permitted under the draft.

Electric distribution companies (EDCs) could procure bilaterals via an RFP and could supply no more than 20% of standard service load via bilaterals.

"Longer term contracts for standard service can create a feast or famine situation for competitive suppliers whose prices more closely reflect spot natural gas and electric prices," the DPUC noted. While competitive retailers may benefit from high-priced long-term contracts, they risk being shut-out of the market where long-term contracts keep standard service lower than current market prices.

While bilaterals could smooth out price fluctuations, if market prices decline versus the bilateral contract, customers are exposed to stranded cost risks when customers switch from standard service to competitive supply. Customers don't bear such risks under the full requirements procurement used now, the DPUC noted.

Stranded costs could create a situation where the electric distribution companies and the Department might discourage retail competition to limit the impact of greater stranded costs on ratepayers, the DPUC cautioned.

Bilateral contracts also involve considerably more administrative work on the part of the electric distribution companies, the department added.

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Cash to Help SaveOnEnergy Grow in New York, Illinois

Online broker SaveOnEnergy.com has secured $2.4 million in funding which will boost the portal's advertising in the ERCOT market and support expansion of its New York and Illinois service.

The capital comes from a group of oil and gas executives based in San Antonio and El Paso who will acquire a minority stake in the firm.

Although SaveOnEnergy.com has offered online prices for energy shoppers in New York and Illinois for several months, it was really a "beta" test of the markets, CEO Brent Moore told us.

The new cash will help SaveOnEnergy bring its unique retail exchange portal for business customers, launched in ERCOT last October, to New York and Illinois.

The exchange portal allows eight energy retailers to compete head to head for the customer's business. Business customers log on to SaveOnEnergy.com, enter their business and usage information, and the information is then delivered real-time to each of the participating eight retailers. The retailers then evaluate the information and contact the customer directly.

SaveOnEnergy hasn't picked the eight retailers it will use for New York or Illinois yet, and expects the selection process to start next month.

The new funding will also expand SaveOnEnergy's advertising in ERCOT, allowing it to buy more radio and television ads in Houston in addition to the Dallas-Fort Worth market where it has been advertising. The online broker will also start advertising in Illinois and New York in the

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No Barriers for Cap Rock Energy Transition to Competition

Texas law currently does not prohibit Cap Rock Energy from transitioning to retail choice, PUCT spokesman Terry Hadley told us yesterday (Matters, 3/17/08).

The PUCT would have to approve any such plan, but there aren't any provisions in SB7 which would prevent the Commission from addressing the issue.

Any such transition would start by creating an unbundling plan to separate a Cap Rock Transmission and Distribution Service Provider from an affiliated REP which would charge a price to beat. The PUCT would also have to certify a qualified power region (QPR) for Cap Rock, which is composed of three service territories: two in EROCT (a recognized QPR) and one in SPP.

However, there's been no effort by the PUCT or stakeholders to open a transition to competition docket. PNM Resources last week applied to merge with Cap Rock and told the Commission the merger would not impede retail choice.

Hadley suggested that should PNM Resources' merger with Cap Rock be approved, it would simplify Cap Rock's transition to competition, since PNM is already operating an unbundled TDSP in ERCOT (Texas New Mexico Power).

PNM told us that Cap Rock's retail choice future isn't a part of its merger docket, but also added that it was committed to working with Commission staff on what staff wanted for the region with regards to competition It has reminded the PUCT that PNM has experience in running a service area open to competition.

PECO Files Real-Time Pricing Pilot; Includes Exit Fee

PECO wants to start offering a voluntary, residential real-time pricing pilot to gauge customer response to hourly pricing, and help ease the transition to market-based rates starting Jan. 1, 2011.

The pilot would be open to 2,000 PECO residential customers, excluding those receiving assistance under the Customer Assistance Plan Rider since those customers already receive significant discounts on prices.

Participants would be charged hourly prices which they could monitor via an interactive website that would also give them hourly usage information. Customers would also have access to real-time hourly energy prices from PJM through a telephone service.

Both the website and phone service would give customers with day-ahead prices as well.

Customers enrolling in the program could rescind their enrollment within four business days of signing up, and could also leave the program without penalty before their third bill.

Otherwise, customers would have to remain on real-time pricing for 12 months.

Should customers decide to leave before the end of 12 months, they would have to pay a $35 exit fee, and the customer would not be allowed to rejoin the program for 12 months.

The penalty is required to, "prevent customers from seeking to reduce their electric costs by entering and leaving the Program instead of managing their electric consumption in accordance with market prices," PECO told the Pennsylvania PUC.

PECO wants to use the pilot to identify, evaluate and assess what may be required for a full implementation of real-time pricing throughout PECO's service territory, and determine customer acceptance of real-time pricing and response to hourly pricing signals.

With PUC approval, PECO would start offering the real-time program Oct. 1.

PECO's current automated meter reading system could accommodate hourly pricing with some software changes, PECO said.

Conn. Working Group Suggests Firm Deadlines for SOS Rates

All Connecticut standard service and last resort service bid sheets, with bidder identities redacted, would be publicly released 90 days after each bid day under a proposal from a working group including United Illuminating, Connecticut Light and Power, the Office of Consumer Counsel, and Levitan & Associates (06-01-08RE02).

The shortened period (Matters, 2/25/2008) would mirror a shortened period in which ISO New England makes bidding data available.

The working group recommended that each utility submit a public filing two weeks after each procurement approval listing:

(i) the cumulative percentage of load that has been awarded for each service term covered under the most recent RFP, and

(ii) upon award of 100% of the load for a given service term, the names of all of the suppliers for that service term.

The percentage of load obligation awarded to each supplier would not be released.

Under the working group's proposal, the DPUC would adopt deadlines for approving new default service rates. The Department currently does not have specific deadlines for approving new rates as they are submitted by the utilities.

The working group suggested new Generation Service Charges and Bypassable FMCC rates for standard service could be approved by the first Wednesday in June for the July 1 rate change and the first Wednesday in December for the January 1 rate change.

For last resort service, new quarterly GSC and BFMCC rates could be approved on a Wednesday during the third week of the month immediately prior to the effective date of the rate change (e.g., publication of final rates on June 18, 2008 for the July 1, 2008 rate change).

The utilities would file their new rates 15 days before those deadlines, and the rates would become public in those filing.

ISO New England Defends Rejection of TransCanada Composite Bid

ISO New England properly evaluated and rejected a TransCanada Power Marketing composite offer in the Forward Capacity Auction (FCA), the grid operator told FERC (EL08-43).

TransCanada had argued that its composite offer (an offer with separate capacity resources bid together) should have been accepted even though one of the resources in its offer had previously been bid into the FCA, because that original bid should have been disqualified by the ISO for not having import rights (Matters, 3/4/2008). That disqualification would have meant the resource would only have been used once, and not double counted.

But the capacity relied upon by TransCanada in its composite offer had already been "irrevocably committed" to participate in the FCA, the ISO told FERC.

The original composite offer had not been withdrawn, had been approved by the ISO and FERC, and had posted the appropriate amount of financial assurance.

"In this case, the [market] rules clearly required the Initial Composite Offers to participate in the FCA," the ISO explained.

Since the original offers were obligated to participate, TransCanada's subsequent offer relying on the same resource had to be rejected, the ISO said, since otherwise the ISO would have double counted capacity.

"There are no rules by which the ISO may or must reject properly-submitted and qualified Import Capacity Resources upon learning that the relevant interface has limited or no excess space," the ISO added.

Entergy Scoffs At ICT Critics

Entergy Services dismissed criticism of its Independent Coordinator of Transmission (ICT) and called requests for a technical conference, "back door attempts to obtain rehearing of prior Commission [FERC] orders that certain parties never have liked," in a reply in FERC docket ER05-1065 (Matters, 2/15/2008).

Most of stakeholders' complaints are, "little more than objections to substantive decisions reached by the ICT," Entergy claimed.

"The Commission should reject stakeholders' attempts to obtain a second bite at the apple, which are inconsistent with prior Commission orders, [and] based on factually incorrect assertions," Entergy added

Entergy claimed that caving into stakeholders' demands for a technical conference simply because the ICT implemented polices that stakeholders did not favor could compromise the ICT's independence.

The ICT's pricing was also approved by FERC for two years after which time it would be reviewed, Entergy reminded. Thus demands for a pricing review after less than a year of service are premature, it said.

Briefly:

SCE Says Ratebased Peakers Not a Good Reference

Southern California Edison urged FERC not to use the costs of its new, ratebased peakers recently built as the Cost of New Entry (CONE) for the California ISO's proposed Interim Capacity Procurement Mechanism (ICPM), the latest ISO backstop for capacity needs (Matters, 3/3/2008). "Under no circumstance should SCE's recently constructed peakers," be used to set CONE, SCE said, urging FERC to use a generic proxy peaker. SCE claimed that the very short time the California PUC gave SCE to complete the units, for the summer of 2007 to meet reliability concerns, make the units inappropriate as a reference, since the, "cost of accelerating the development and construction of the peakers resulted in significant cost increases relative to other options." SCE does not favor using CONE to set ICPM prices in any case, since payments are to existing, not new, generators (ER08-556 et. al.).

ISO-NE Talks Interconnection with MPS

In a letter to Maine Public Service CEO Brent Boyles, ISO New England CEO Gordon van Welie suggested that the utility submit a formal request for Regional Network Service to facilitate studying how MPS could be interconnected to the ISO's grid (Maine PUC docket 2006-513). MPS had asked the ISO to study interconnection and suggested it would join the ISO if positive benefits for MPS customers were found (Matters, 3/3/2008). Van Welie stressed that there is no completed transmission study that details the project requirements for the Maine Power Connection (which would join MPS and the ISO) to be built and reliably operated, although work is progressing. Preliminary studies base much of the economic benefit of the interconnection on the construction of significant wind resources in MPS which would need to be fully deliverable to the rest of NEPOOL.

CMP Wants to Keep Smart Meter Review in Rate Docket

Central Maine Power urged the Maine PUC to keep a review of its advanced metering plan in a docket on its distribution rates (2007-215) instead of removing smart metering policies from the docket and placing them a docket along with a review of Bangor Hydro Electric's advanced metering plan. CMP claimed that it has favorable bids from vendors for smart metering technology that expire in August and needed an expedited decision that would be more likely reached by keeping the advanced metering review in the rate docket, rather than moving it into the Bangor Hydro docket. Forcing a delay in equipment procurement could risk cost increases, CMP cautioned. CMP stressed while a review of the cost effectiveness of its smart meter plan should remain in docket 2007-215, discussions concerning design of appropriate and specific demand response products to maximize the utility of the smart meters could occur outside of the rate docket on a separate track.

Mich. Gov. Hears From C&Is Favoring Markets

Businesses employing 74,600 Michiganders urged Governor Jennifer Granholm, D, to support the continued evolution and implementation of competitive electricity markets in a letter to the state's chief executive opposing anti-competition legislation in the House. "Electricity competition has contributed to Michigan's economic growth, promotes conservation and energy efficiency, facilitates renewable energy development, and provides the best route toward energy independence," the letter states. Signatory Western Michigan University estimated the proposed rollbacks of competition would increase its utility costs by at least $400,000 annually. Other signatories included 7-Eleven, Belle Tire Distributors, Big Lots Stores, Home Depot, JCPenney, Johnson Controls, Macy's, Yum! Brands and several schools districts.

RGGI Picks World Energy

The Regional Greenhouse Gas Initiative selected World Energy Solutions to run upcoming regional carbon allowance auctions for the 10-state greenhouse gas cap-and-trade pact. The first auction would be Sept. 10 followed by a second Dec. 17. Compliance starts Jan. 1, 2009.

Conn. Procurement *... From 1*

"The Department does not believe that we should start down this road without understanding and accepting the potential consequences of this action," the draft decision said.

"Ultimately the question is whether we move forward with retail competition or return to more traditional regulated utility structure. At this point there does not seem to be a consensus to return to regulation and therefore the Department would not recommend long-term bilateral contracts at this time."

The DPUC noted the success of its current procurement design in attracting retailers, with five now active in the residential market, serving 66,000 customers versus 31,000 two years ago. C&I shopping has grown even faster, from 300 shoppers at the end of 2005 to 25,000 migrated small C&Is and 1,080 migrated large C&Is today.

Still, the DPUC found it appropriate for the EDCs to talk to generators about short-term bilaterals (up to four years) which could help lower costs while minimizing the impact on the competitive market.

Any such bilaterals would need to be approved by the DPUC before execution, and the Department, if approving the pacts, would determine whether the power should be used to supply standard service needs or sold back into the market.

Although the DPUC doesn't see a great benefit from allowing EDCs to hedge under the current procurement system (since wholesalers bear the full requirements risk), the Department did observe that hedging may be useful to limit exposure to congestion costs for contracts that do not include delivery to Connecticut.

Accordingly, EDCs would be allowed to hedge for up to three years. The DPUC noted that, "hedging can end up costing ratepayers money just as it does when you pay for insurance but never use it; however the risks are limited if only insurance type arrangements are purchased."

"The Department would never endorse more speculative options which can have large unbounded downside potential," the draft decision said.

Hedging would not materially impact competitive markets since hedges are short-term arrangements and competitive retailers can, and often do, use various hedging strategies.

The DPUC found third-party, standard service portfolio managers, whether for-profit or non-profit, would add administrative costs without providing tangible benefits. Self-dealing and a lack of transparency among for-profit portfolio managers was a concern as well.

The Department recommended watching Illinois's experience with a state-run portfolio manager before proceeding further with a non-profit portfolio manager.

Exceptions to the draft are due March 26.

SaveOnEnergy *... From 1*

coming months.

Serving the Connecticut mass market is "absolutely" on SaveOnEnergy's horizon, Moore told us. He expects SaveOnEnergy to be ready to offer its exchange there in early 2009 with Connecticut at the top of his expansion plans.

Moore had been considering Maryland as well, but has pulled back from offering a Maryland service due to the regulatory climate as retailers also trim their Maryland offerings.