Energy Choice Matters

March 25, 2008

# REP Churn in SaveOnEnergy Portal Shows Competitive Intensity, Customer Benefits of Choice

Liberty Power is the latest REP to join SaveOnEnergy.com's Texas commercial retail exchange portal, which allows eight REPs to compete head-to-head for C&I customers.

TXU Energy and Ambridge Energy are other recent additions to the suite of options available to C&Is using the portal, replacing three REPs originally on the portal but who chose to exit since it did not fit their sales approach (MXenergy, Commerce Energy and Hudson Energy).

Each of those three are still offering products to residential customers, or C&Is in other territories, through SaveOnEnergy; they just are not participating in the portal which generates leads for a REP's direct sales force.

Also still competing through the portal are Cirro Energy, Direct Energy, Reliant Energy, Spark Energy and Suez Energy Resources NA.

The churn is indicative of a successful market, SaveOnEnergy CEO Brent Moore told us. He wouldn't be satisfied if the offers and REPs remained static for a year and REPs were not vigorously vying to be listed by offering better products.

Rather, the churn shows REPs have been forced to step up their pricing and products to reach customers available through SaveOnEnergy's site. That's a concrete example of the marketplace giving customers the power to demand better products and services.

Sites such as SaveOnEnergy, the Houston Consumer Choice Initiative, and similar services add a layer to the competitive intensity of the mass market, by forcing REPs hungry for valuable

***... Continued Page 5***

# IMM: ERCOT Offers at Cap Indicative of Scarcity

The real-time conditions that drove ERCOT balancing energy prices to the new system-wide cap of $2,250/MWh on March 3, "were representative of scarcity conditions," and an analysis, "does not indicate physical or economic withholding by an entity that may have market power," ERCOT's independent market monitor found (docket 23100).

During the evening of March 3, actual load in hour ending 19 was as much as 3,400 MW higher than the day-ahead forecast. The deficiency was largely offset by over 3,200 MW of additional non-wind capacity brought online by market participants to meet changing conditions, but was also reduced by real-time wind output levels that were approximately 900 MW lower than the day-ahead planning assumptions, the market monitor found.

The market monitor noted that while a Feb. 26 event (Matters, 2/28/2008) which prompted ERCOT to implement LaaRs was a more significant event from a reliability perspective than the March 3 scenario, the pricing results were significantly lower on Feb. 26.

Lower prices on Feb. 26 were attributed to the fact that the highest offer submitted and deployed that day was only $299/MWh, and the use of LaaRs by ERCOT to reduce system load by over 1,150 MW during the event.

The fact that Feb. 26's event did not exhibit scarcity pricing (despite a sustained lack of system reserves) shows that:

- Relying upon the submission of high-priced offers is an unreliable means of producing scarcity prices during scarcity conditions; and
- The price formation process during shortage conditions can become distorted if it does not

***... Continued Page 5***

## Marketers Protest Lack of Cost Causation Data in MISO RSG Plan

Frustrated marketers bemoaned the "destabilizing" uncertainty that FERC's two-year review of Revenue Sufficiency Guarantee charges in the Midwest ISO has created and called for the Commission to reject the MISO's latest proposal (Matters, 3/24/2008) because it lacks analytical data to justify its proposed four-part RSG allocation (Matters, 3/11/2008).

"What is clear from the Midwest ISO's filing is that it has not provided adequate cost support in order to show that the rates and methodology are just and reasonable," Strategic Energy argued (EL07-86 et. al.).

The MISO proposal does not distinguish between virtual and non-virtual activity, Strategic noted. "In fact, despite numerous requests and orders of the Commission to do so, Midwest ISO has not performed any analysis to determine whether virtual supply activity causes RSG," Strategic protested.

The March 3 filing reiterated MISO's view that available RSG cost data, "remains incapable of supporting a cost causation and allocation [between virtual and non-virtual activity] with such a degree of granularity," Strategic pointed out.

The limited analysis the MISO did provide was performed after creating the proposed RSG allocation method, Strategic observed -- the ISO derived a methodology and then used data it had to support it. While the MISO is performing additional studies, Strategic conceded, they haven't been presented to stakeholders yet.

Integrys Energy Group (for its marketer Integrys Energy Services and two utilities) was harsher in its criticism.

The Commission "unequivocally" ordered MISO to study how virtual supply offers could cause unit commitment costs to determine whether cost causation principles should apply RSG charges to such virtual transactions. But MISO has not undertaken any such study, nor has it made market data available to allow stakeholders to perform their own analyses, Integrys argued.

Since MISO's methodology is, "entirely unsupported," the ISO thus, "proposes to allocate RSG costs to virtual Market Participants that they did not cause," Epic Merchant Energy charged.

Epic cited a number of errors in the limited analysis the ISO did provide, including:

• Posting incomplete and incorrect data to support the MISO analysis, including the substitution of 2006 data for 2007 data;

• Failing to provide information on specific decisions to commit generating units, including whether such decisions were made due to virtual transactions or due to physical transmission system operations;

• Aggregating multiple days of data in an effort to "prove" that virtual transactions cause RSG costs, when such costs are calculated on an hourly basis; and

• Failing to show the impact of other key factors, including real-time unit commitment decisions due to real-time congestion management and physical schedule deviations, which result in additional RSG costs.

"The MISO submittal is thus nothing more than an after the fact and highly selective compilation of data prepared for the sole purpose of justifying a cost allocation scheme developed prior to the collection of any RSG data," Epic said. "This is far from a legitimate or accurate cost analysis and it certainly cannot serve as the basis for a new RSG rate," the trader added.

Strategic also objected to the "indicative" nature of the MISO filing, observing that there were no tariff sheets or formal proposals to analyze.

MISO did not provide justification for selection the four "buckets" of RSG charges, nor for the sequential order proposed, Strategic argued.

The RSG method must be transparent and understandable, Strategic asserted, but the MISO's plan leaves questions unanswered, such as, how did the ISO arrive at the four buckets, and how did it determine staging was appropriate.

Integrys urged that prospective implementation of the changes (instead of retroactive treatment back to Aug. 10, 2007) is "critical" for market certainty.

"Adding another layer of rate reassessment, allocation and rebilling, back in time nearly a year would further destabilize the Midwest ISO just as it attempts to implement another market based feature of its market [the Ancillary Services Market]," Integrys argued.

Since not all of the proposed changes could be implemented retroactively, FERC must reject "piecemeal" implementation of retroactive provisions which would cause further market harm, Integrys said.

Retroactive implementation is particularly problematic for competitive retailers, Integrys pointed out. Integrys Energy Services can't collect a charge assessed today for activity occurring two years ago from a customer served two years ago if that customer has switched to another supplier.

The Midwest TDUs also objected to such piecemeal retroactive implementation, but for a different reason. The transmission owners urged FERC to reject the MISO framework because it could not be fully implemented as of the refund-effective date that the Commission established in order to protect customers.

"Midwest TDUs submit that consideration of MISO's proposed forward-looking solution should occur only in the context of a Section 205 filing – separate from the current complaint proceedings focused on relief that can and should be provided as of the refund-effective date."

The TDUs also objected to the proposal since it appears to be, "heavily weighted toward the same load-based cost allocation," that they originally criticized.

Wisconsin Electric Power insisted that the start of the MISO market on April 1, 2005 is the proper refund date, claiming that RSG cost -shifting has cost load-serving entities over $600 million.

## TOs Blast "Deficient" Duquesne Exit Compliance Filing

FERC should rescind its conditional approval to allow Duquesne Light to exit PJM due to a "patently deficient" compliance filing intended to supplement the record about remaining cost obligations Duquesne will have to PJM after leaving, several stakeholders urged (ER08-194).

PSEG urged the most drastic action – asking FERC to rescind its conditional approval of Duquesne's withdrawal – because Duquesne's compliance filing, "is deficient on its face."

The Duquesne filing does not list its obligations to pay for regional transmission projects outside of its zone for which it has been assigned some cost responsibility, PSEG noted. Duquesne's share for higher voltage transmission projects (whose costs are socialized) is $109 million, added PSEG.

FERC precedent "firmly" establishes that a withdrawing transmission owner remains accountable for obligations that continue beyond its date of withdrawal such as those transmission costs, PSEG observed. The "plain language" of Section 3.4 of the Transmission Owners Agreement provides for the survival of contractual obligations beyond a parties' withdrawal from the underlying agreement as well, PSEG observed.

Duquesne's complaint regarding the lack of benefits to Duquesne load from the regional projects, "is effectively a collateral attack on the Commission's Opinion No. 494, establishing the current PJM cost allocation," for transmission upgrades at 500 kV and above, PSEG argued.

"As a policy matter, while transmission owners have the right to leave an RTO, they should not be allowed to wreak havoc on other participants and RTO processes, and renege on obligations they voluntarily took on, in the course of exercising that right," PSEG urged.

"Duquesne's current position amounts to picking and choosing the costs it wants to pay and has no correlation whatsoever to the costs it is obligated to pay," Pepco Holdings added.

Duquesne also failed to list its RPM obligations despite FERC's clear order that Duquesne is obliged to pay for capacity procured by PJM on Duquesne's behalf through the 2010/2011 Delivery Year, Allegheny Energy argued.

"Duquesne's refusal to even attempt to estimate its RPM obligations is indefensible and inexcusable," Allegheny said.

"Duquesne has demonstrated a lack of good faith on its part to comply with the Commission's directives," charged Allegheny.

By ignoring so many of its obligations, Duquesne completely defeated the purpose of the compliance filing and has made it impossible for the Commission or other interested parties to evaluate the impact of Duquesne's withdrawal from PJM, Allegheny claimed.

## *Briefly:*

### DPUC OKs CL&P Last Resort Prices

The DPUC accepted Connecticut Light & Power's proposed last resort service rates without changes (08-03-02). We reprint the rates alone here, but rate classes and discussion of the weighted averages and percent decline in prices can be found in our story on March 7.

**CL&P Approved Last Resort GSCs**

| | |
|---|---|
| April 2008 | $0.09972 per kWh |
| May 2008 | $0.09881 per kWh |
| June 2008 | $0.10338 per kWh |

### APPA Sees Gap in Cross Subsidization

FERC needs to close a "huge hole" in its final rule (Matters, 3/22/2008) to codify restrictions against cross-subsidization in affiliate transactions involving public utilities that have captive customers or that own or provide transmission service over jurisdictional facilities, APPA and NRECA warned (RM07-15). FERC's rule would not apply to deals executed before its effective date, March 31, 2008. That could, "exempt a large number of affiliate transactions," from the protections, APPA and NRECA cautioned. APPA and NRECA urged FERC to apply the rule to all covered affiliate transactions occurring after the effective date of the Final Rule, regardless of when the public utility executed the contracts. Otherwise, a utility could move quickly to execute a new long-term agreement with affiliates that violates the Final Rule's restrictions before the Final Rule's effective date, making the Final Rule inoperative, APPA and NRECA said. "One can only wonder how many new long-term affiliate contracts have been executed since the Commission issued the Final Rule in this proceeding," the groups added.

### EPSA Challenges Restrictive FERC Blanket Authorization

EPSA asked FERC for a rehearing regarding blanket authorizations of contract sales under RM07-21 after FERC issued a more restrictive rule than what was in the original NOPR. The NOPR proposed to grant a blanket authorization for the acquisition or disposition of a jurisdictional contract where neither the acquirer nor the transferor has captive customers and the contract does not convey control over the operation of a generation or transmission facility. But in the final order, FERC disqualified transactions between affiliated or associated companies from the blanket authorization. Such a policy is inconsistent with Commission determinations with respect to other blanket authorizations granted under Order No. 669-A, EPSA said. The restriction isn't needed, EPSA argued, since the transactions do not present cross-subsidization issues and do not involve captive customers. Therefore, those deals are unlikely to cause anticompetitive effects. EPSA sees no reason why affiliated entities with no captive customers should be prevented from buying and selling contracts without Commission approval.

### CPV Protest Lacks Substance, Dominion Says

Competitive Power Ventures has not shown with any degree of certainty or specificity that a settlement agreement that would resolve a complaint between Dominion Resources and PJM over the interconnection process will result in increased costs or delays to Competitive Power Ventures, Dominion told FERC in an answer (Matters, 3/13/2008). CPV appears to be the only party opposing the pact, Dominion noted (EL08-36). CPV presented FERC with, "a worst-case scenario without handicapping the probability that such a scenario may actually take place," Dominion noted, adding, "CPV has not shown that it is exposed to any more risk as a result of the Settlement Agreement than it would be in the ordinary course of the queue." CPV's arguments regarding the filed rated doctrine are erroneous, Dominion responded, because CPV has applied for PJM interconnection service, but such service has not yet been provided.

**Two New Brokers for Md.**

The Maryland PSC granted broker licenses to Electric Advisors and DIBCO in separate letter orders. Electric Advisors is to only broker C&Is while DIBCO will broker for residential customers and C&Is.

**APS Asks for Rate Hike**

For the eternal optimists in the retail marketing world still following the Arizona market, Arizona Public Service has asked to raise rates $265.5 million annually effective no later than July 1, 2009. APS blamed the 8.1% net increase on, "[c]ontinued construction of needed power supply facilities and dramatic increases in basic commodity costs." APS proposed new Time of Use rates, as well as a "super peak" rate option from 3 p.m. to 6 p.m.

## *SaveOnEnergy ... From 1*

leads and customer "touches" to refine and improve their existing products if their offerings are not to the satisfaction of the program's administrator.

Moore carefully scrutinizes REPs before approving them to compete on SaveOnEnergy, and demands high levels of customer service, innovative products and convenience features, and, of course, low prices.

In essence, REPs are forced to respond to mass market customer demands much as REPs would to the conditions of a large C&I RFP, because the aggregation of leads through the site make product improvements worth the investment, which otherwise may not be practical if REPs were acquiring customers in a disaggregated manner (e.g. cold calling, etc.).

Also relatively new to the residential side of SaveOnEnergy (not yet on the Texas C&I portal) is Gexa Energy. Moore, a self-described airline miles "junkie," touted Gexa's product which allows customers to earn either Continental or American Airlines frequent flier miles by buying from Gexa.

With each airline having their biggest hub in Texas (IAH and DFW, respectively), it's a product that best fits the ERCOT market and shows the localized, custom products REPs can bring to even the mass market.

That got us thinking about what would work in the New York market. Certainly with the secondary hubs of Continental at EWR and Delta and American at JFK, airline miles would still work (though we feel there is not as strong a connection to them as with the Texas hubs).

But with all those purple EZPass signs on the roads, we just think that's an opportunity primed for one of our readers. It may also present an opportunity for reinforced branding, as the prepaid toll lanes are sponsored in some states. REPs potentially offering discounts for New York MTA farecards (subways, commuter rail, buses, etc.) also intrigues us.

Other unique offers currently on SaveOnEnergy include bill credit coupons and retail store gift cards.

## *ERCOT Scarcity ... From 1*

include mechanisms to efficiently price the value of sacrificing the reserves that are required to maintain minimum reliability requirements.

Separately, the PUCT staff filed its final report on the Feb. 26 Emergency Electric Curtailment Plan (EECP) event that was mostly attributed to the loss of over 1,000 MW of wind generation (Matters, 3/6/2008).

The staff found that grid operators' lack of visibility into actual wind energy output was, "an important causative factor," to the event.

Use of the resource plans provided by wind energy companies in system planning and operations models prevented operators from taking steps that could have prevented conditions from deteriorating as rapidly as they did, staff noted.

Staff reiterated that a decline in wind production was not the only factor for the emergency, as a "sizable" amount of fossil-fuel generation became unavailable between the day-ahead study period and when ERCOT declared EECP. ERCOT may have avoided a shortfall, even with the drop in wind energy, had those resources been available, staff observed.

The staff and market monitor will continue to probe QSE performance to determine the reason for significant diversions from schedules that are not explained by plant outages.

"While the loss of wind energy production was not the sole cause of the emergency, the event does illustrate that the current method of accounting for wind energy production contributed significantly to the speed at which conditions deteriorated," staff added.

Thus, ERCOT should "aggressively pursue" methods to incorporate an independent forecast of probable wind energy production into the current zonal market design and/or methods to improve the accuracy of wind-only QSEs' resource plans.

"This event has illustrated the need for ERCOT to proactively examine the possible impacts of large increases in wind capacity on grid operations, planning, and market prices, including ancillary services prices and market rules," the staff concluded.