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Experts debate OTC derivatives policy at NARUC meeting

NARUC is poised to consider a resolution at its winter meetings that would put the association in league with energy lobbies seeking a carve-out for over-the-counter (OTC) hedging activities in pending legislation in Congress. The state regulator association's Electricity Committee convened a panel of experts to tease apart the issue that has been the focus of the industry's fight on the financial regulations bill pending in the Senate.

Utilities regularly enter into OTC derivatives trades with each other and merchant generators to hedge against price volatility, said Exelon Executive VP for Government Affairs & Public Policy Elizabeth Moler. Such deals don't carry credit requirements as hedging in NYMEX and other exchanges do, saving significant sums for the firms that do them.

The average utility would need to set aside an added $250-400 million for such transactions if they were forced to be cleared in centralized markets as some pending legislation has proposed, said Moler. That could end up raising rates to consumers by 5-15%.

It's not just large firms that enter into such deals to hedge costs, said the head of ACES Power Marketing, Andy Whitesitt. His firm supplies power to 17 non-profit utility organizations and it engages in such deals constantly.

Using OTC derivatives to hedge is an important tool for Whitesitt and his trading desk and without them, ACES would be forced to have up to $500 million in cash to meet credit requirements.

NARUC can't institutionally take a side on the issue until it approves a resolution on it -- and that isn't likely to be a unanimous decision.

Maryland PSC Chairman Doug Nazarian didn't want to give institutional support to the effort to keep OTC derivatives unregulated. Trading activities helped bring Constellation into near bankruptcy recently, he noted.

But utilities aren't trying to block regulation of speculative OTC deals, Moler replied. Those are deals that the banks entered into and that contributed greatly to the recession. The commodity OTC deals are just 1% of the overall market and utilities' activities are a slice of that.

Another issue in the financial reform legislation is the CFTC potentially usurping FERC jurisdiction of wholesale power markets. The House-passed bill in December calls for the two agencies to create a

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National marketers assn issues paper calling for DR now

NEM believes now is the time for DR, said the organization in a paper distributed at the NARUC Winter Committee Meetings in Washington, DC, titled "Achieving Significant, Near-Term Demand Response by Residential and Small-Commercial Customers."

"This is a very important topic on so many levels," NEM President Craig Goodman told us. DR should be "jump started" now through the use of already-proven DR strategies and the development of associated transitional, DR load profiles for residential and small-commercial customers. Utilities have 40 years of experience and statistically reliable use data plus new smart grid pilot programs, said NEM.

The group and its members are uniquely situated to provide the benefits of load shifting and demand cuts to millions of mass-market retail consumers nationwide using current metering practices at the utility and ISO level, said the paper.

The public interest is well served in that it lets energy marketers educate mass market and aggregate retail DR customers and start developing DR capability with a set of first-generation DR load profiles, preparing consumers for a more-refined approach as full smart-grid implementation occurs, said the paper. Mass market, retail DR programs can potentially help with T&D capacity shortages and generation capacity shortages, NEM noted.

[Comments]

NARUC Electricity Committee briefed on coming plug-in boom

With every major car company planning to release plug-in vehicles in the next few years, utilities all around the country are preparing for a wave of new demand, experts told the NARUC Electricity Committee at NARUC's winter meeting in the nation's capital yesterday.

Even utilities in areas not likely to be early adopters recognize they will likely get hit by the second or third wave of plug-in roll-outs, said EPRI's Director of Electric Transportation Mark Duvall.

After watching Toyota come to completely dominate the hybrid market after it introduced the Prius and most other firms didn't follow suit, all the automakers are planning plug-ins.

The introduction of power as a transportation fuel will present challenges for the industry, but on the whole they are likely smaller than the move to air conditioning, said Duvall.

EPRI believes Americans could have 1.5 million plug-ins on the road in five years and by 2020, they could come to represent 3% of the car market.

An area requiring caution from the utility industry is holding down the cost of adopting plug-in vehicles since otherwise the benefits of using power won't add up for years.

The one thing all utilities are working is getting plug-in owners to charge off-peak.

Even in New York City where most of the population walks and uses mass transit, the scenarios for plug-ins in 2015 have substations overloading all around the city if the cars charge on peak, said Consolidated Edison VP of Engineering and Planning John Mucci.

The standard electric car uses about 7.7 kw to charge but the Tesla Roadster that is available now uses a much higher amount. ConEd has a customer with a Roadster and it boosts his demand from 3 kw to 20 kw when he is fast charging it, said Mucci.

San Diego Gas & Electric is working on a pilot program with 1,000 Nissan Leafs that will have customers with the cars on variable rates to try to induce more grid-friendly charging, said VP of Customer Solutions Hal Snyder.

The program will offer three rates: an prohibitive on-peak rate of 25-35¢/kwh, an off-peak rate ranging from 10-15¢/kwh and a way off-peak rate below 10¢/kwh.

Many firms outside traditional utilities are interested in owning charging infrastructure such as a leading firm in the new field called Better Place -- but Duvall said he wasn't convinced by their business model. Trying to profit from charging cars alone will be very difficult, he added.

[Comments]

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memorandum of understanding on their respective jurisdictions, said FERC Principal Deputy General Counsel Michael Bardee. It asks CFTC to give deference to FERC requests for it to foreswear jurisdiction in wholesale markets.

But the House bill is layered on top of the Commodity Exchange Act that gives the CFTC supreme authority over anything that comes under its purview, making such deals difficult to work, said Bardee.

The two agencies have already clashed in court over an enforcement case and with the law as written, that could come into play more often.

The Senate has yet to release its version of the bill but the Energy & Natural Resources Committee had a hearing scheduled on the subject last week that was canceled due to snow. NARUC is meeting in the nation's capital.

[Comments]

Wellinghoff updates NARUC on allocation -- including for wind links

FERC Chairman Jon Wellinghoff yesterday updated NARUC's Electricity Committee on his agency's actions in recent months. One area of major concern that's progressing is cost allocation, especially allocating the cost of large lines needed to integrate renewables, he reported.

The Midwest ISO has been getting into regulatory spats with wind developers over its proposals to put more responsibility for them to pay for large lines, as the old tariff would have had small utilities that won't use the wind power pay. MISO recently agreed to come up with a more permanent solution to that contentious issue by July, said Wellinghoff.

Massachusetts Department of Public Utilities Chairman Paul Hibbard pointed to the recent EWITs study (RT, Jan-21) that showed generators in the Midwest would reap huge profits selling power in pricier markets on the East Coast. That's a large benefit to the Midwest, he added, and it should be factored into any cost allocation for lines needed to integrate wind.

Wellinghoff said the EWITs study would be a factor in coming up with a cost allocation regime but he was unsatisfied that it didn't include any reliability concerns.

FERC staff is working on a study using frequency response to look into how much variable power the grid can accommodate reliably. Wellinghoff plans to use that study and others in emerging cost allocation debates, he added.

The commission recently told PJM to respond to its inquiries after a federal court remanded its cost-allocation scheme to FERC.

[Comments]

NYISO balks at ITC request to allocate costs of new PARs

The New York ISO called an ITC request to allocate costs of Phase Angle Regulators (PARs) on the Michigan-Ontario boarder unprecedented, unjust and unreasonable -- in a response to the transmission-only firm, filed Friday at FERC. ITC argued that the PARs it is soon to place in service would help solve the loop-flow issue around Lake Erie that jacked up prices in New York and that has been the subject of a lengthy FERC proceeding (RT, Jan-28).

The PARs are to replace an earlier one that failed shortly after it was put in service in 2003 and was expected to provide significant benefits to Detroit Edison, ITC's predecessor that still owns a distribution utility.

NYISO alleged that the firm is trying to place its request in the wrong docket and it should have pursued other means of its quest for broader cost allocation, including an ongoing Midwest ISO effort to spread the costs more widely in its footprint.

The ISO believes it's too late for FERC to give the PARs postage stamp rates for such a broad region since the commission doesn't do that for existing facilities. FERC only hands out postage stamp rates before projects are built and puts limits on them.

ITC moved ahead on the project with license plate rates and FERC has ruled against firms that try to switch cost recovery mechanisms late in the process, said NYISO. When costs for such projects are spread around, they usually come out of formal processes that NYISO and its stakeholders would have takes part in but such meetings never took place.

[Comments]

New York commission encourages home DG via net metering

The New York PSC approved tariff filings of the six IOUs in New York to encourage the installation of residential micro-sized combined heat & power (micro-CHP) and fuel cell electric generating systems to let homeowners sell excess power to the utility.

"Encouraging homeowners to install small-scale renewable energy systems and to allow the excess power to be sold to the utility will provide long-term benefits to the environment and the economy," said Commission Chairman Garry Brown. "As a result of our decision, a homeowner can install these newest technologies and receive a credit from the utility for the excess electricity that's been created -- or sell it to the utility and pocket the money. The choice is theirs."

The tariffs that the IOUs have filed will be updated to add to the list of eligible technologies than can be net metered.

To push the development of net metering, the standardized interconnection requirements (SIR) for DG units running in parallel with the utility distribution system that both utilities and customers are required to follow was revised to incorporate the net metering modifications for micro-CHP and fuel cell systems.

Under public service law, a residential applicant asking to install a micro-CHP or fuel cell power generating system may not exceed 10 kw and the installation has to be used at the applicant's premises.

[Comments]

Vermont governor roots for climate action at NARUC event

Vermont Governor James Douglas gave opening remarks at this week's NARUC Winter Committee Meetings general session yesterday and spent time saying that all factors need to be balanced for the nation's energy future to be successful.

"There's a number of high profile cases that are pending now and I am a firm believer that these quasi-judicial fact-finding processes are best to remain outside a political context and with the best available information to protect the ratepayers and consumers in our states," said Douglas, who serves as the president of the National Governor's Assn.

"The nation's energy future is obviously at the forefront of discussions we are having around the country right now because they affect the economy, affect the environment and they put utilities and regulators on the front lines.

While transitioning away from carbon-based, foreign sources of energy is in the best interest of the US, securing an energy future that relies on local, renewable production that provides for the needs of Americans at an affordable price can be a difficult balance to strike, he added.

"We need to work together to take all reasonably appropriate measures to minimize our carbon footprint and use energy smarter and more efficiently," said Douglas.

Vermont's energy planning since the '80s -- including demand side management and energy efficiency programs -- has saved more per-capita than any other program in the nation and continues to actively promote small scale renewables and relies on green sources of base load power.

"As we look at evolving national energy policy, we want to be assured that

Georgia town makes gas marketing deal with Gas South

The City of College Park, Georgia and Gas South formed a marketing alliance that lets College Park residents to receive discounted natural gas rates with Gas South. College Park residents will be eligible for a discount of 2¢/therm on all of Gas South's standard rates for as long as they stay customers, when they either sign up with Gas South or register their existing accounts.

"We are pleased to make an offer that is sure to help our customers stretch their energy dollars," said Mayor Jack Longino, adding that "this alliance is a very good fit for the city and its residents."

The alliance with the City of College Park is one of several that Gas South has formed with municipalities and electric membership corporations (EMCs) in Georgia to provide preferred gas rates. In addition to College Park, Gas South alliance members include the cities of Acworth, Kennesaw and Marietta.

[Comments]

our consumers and our state economy are not undermined by the nature of how carbon trading is structured," said Douglas. His state was the first to sign the RGGI.

"I remain concerned that current federal legislation doesn't provide a clear path to address carbon emissions from transportation," he added.

"I believe that in the face of the challenge of climate change and our dependence on foreign oil, our emphasis of national energy policy should be a non-carbon agenda. The implication of this policy direction is that we have to recast long-established emphasis on narrow elements of the solution like renewable power or energy efficiency. Instead, we have to embrace all energy sources that can power our homes, businesses and transportation while not adding carbon emissions to our atmosphere."

To that end, instead of the proposed renewable energy standard, the emphasis could be modified to become a "non-carbon standard" where a minimum percentage of every utility's electric portfolio does not emit carbon, he told regulators.

[Comments]

2 stories in 1 minute

Ohio OKs Dominion's standard offer gas rate: The Ohio PUC approved the results of Dominion East Ohio's standard service offer (SSO) and standard choice offer (SCO) auctions last week. The auctions secured natural gas supplies for Dominion's customers from April 1 to March 31, 2011 and established a retail price adjustment of $1.20/mcf. Dominion SCO customers will be reassigned to new suppliers based on the auction results. SCO customers are free to enroll with an energy choice supplier, join a government aggregation buying group or stay with the SCO rate. Customers now enrolled with an alternative supplier or a government aggregation group will not be affected by the new SCO rate and their contracts will be unchanged. The SSO rate applies to Dominion's customers now enrolled in the Percentage of Income Payment Plan (PIPP) or that are ineligible for the choice program.

Gas contract closes 7.2¢ higher Friday: NYMEX March natural gas futures closed higher Friday after a slightly bullish storage report from EIA, analyst Jackson Mueller reported. The contract closed out the week up 7.2¢ at $5.468/mmbtu.

[Comments]

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