Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

Tuesday, May 18, 2010

Comments flood FERC docket of DR compensation

FERC's NPRM on DR compensation elicited a wide array of opinions on the merits of paying full LMP as seen in comments filed at the end of last week.

EnerNOC, Energy Curtailment Specialists, NEM, Wal-Mart, other large customers and some state entities support full LMP at all hours.

The ISO/RTO Council, Potomac Economics, Monitoring Analytics, the Federal Trade Commission, EEI, the Organization of Midwest ISO States and other parties believe full LMP constitutes overcompensation and would lead to economic inefficiencies.

Yet a third group including the New York PSC, the New England Conference of Public Utility Commissioners (NECPUC) and others supports full LMP but with qualifications.

DR providers and large customers argued that since the resource provides the same service to the grid as generation, it should be compensated on an equal level.

EnerNOC believes current compensation of DR is inadequate and undervalues the resource, leaving it grossly underdeveloped in ISO/RTO markets. Other compensation methods besides full LMP undervalue DR with the preferred alternatives of LMP minus the retail rate or full LMP at high demand hours being no different.

Customers want to take part in energy markets but they face regulatory barriers that deny DR access to markets available to generation -- or compensate it at lower levels, said EnerNOC.

NEM argued that full LMP represents a minimum wholesale price for DR, especially given that societal benefits far exceed that payment. DR exerts downward pressure on prices, benefiting all consumers in the process.

DR cuts greenhouse gas emissions, avoids costs of future investment and cuts back on transmission congestion, too, noted NEM.

Supporters of full LMP are joined by FERC Chairman Jon Wellinghoff (RT, May-13) and a majority of the commissioners though Commissioner Phil Moeller did file a dissent in the NPRM that was often cited by those with an opposing view.

FERC jumped the gun, Moeller argued, and failed to consider whether or not other compensation methods would also work. PJM's initial compromise proposal that had full LMP at high-use hours until DR penetration got to a certain level, likely would have boosted the resource's participation in the market but the majority threw it out and told the RTO to look at full LMP all the time.

The ISO/RTO council filed a white paper by Harvard Economist William Hogan -- who also worked with EPSA on the proceeding -- arguing that full LMP is not the correct method of compensation in all instances.

Hogan's paper explained imputed DR would not warrant full LMP under rate structures where customers are not charged for the entire baseline amount. Imputed DR is the difference between an estimated baseline used by some consumers and their actual use. The proper compensation would be some way of accounting for the power that was not purchased such as netting-out the retail rate or making the customer buy its baseline power use then sell it back to the grid.

DR can be equal to energy supply such as when a consumer has a contract to buy a set amount of power and thus LMP would be valid payment, but that's not always the case, said Hogan.

FTC raises concerns

The Federal Trade Commission questioned the soundness of a policy that would pay firms the proceeds from the sale of power that they never bought in the first place. That could lead to situations were a DR provider would find it more profitable to sell its power rights than to consumer that power, even though the value to society of using exceeds the power's cost to society.

The Organization of MISO States supports taking the retail rate out of LMP for DR compensation as it did when the ISO filed such a proposal at FERC before the NPRM was issued.

The policy objective of DR is to give customers who tend to pay an average rate a window into the wholesale markets so that when LMP is above their retail rates, they cut consumption, noted OMS. Since the customer is facing the retail rate, the MISO state regulators argue the efficient payment is represented by the difference between the LMP and the retail rate.

PJM's market monitor, Monitoring Analytics, argues that paying full LMP would mean customers get the price of

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MOVE OVER GEORGIA: Ohio ranks #1 in retail gas competition

Georgia, long the leading natural gas retail choice state is now number two, reported EIA. Enrollment in choice programs nationwide reached a new high in 2009, with about 445,000 more participants than in 2008, a boost of 9%, said EIA's annual review of gas competition for 2009.

Overall, nearly 15% or about 5.1 million of the 35 million or so residential gas consumers with access to choice were buying from marketers as of December 2009 -- up from the 4.7 million in 2008. Ohio had about 279,000 of the new choice customers.

For the first time, Ohio instead of Georgia had the largest number of choice customers with about 58% of all eligible homes taking part and enrollment levels of nearly 1.7 million.

Georgia continued to have the most comprehensive choice program with 1.5 million residential customers in Atlanta Gas Light's service territory -- over 80% of Georgia's residential gas customers -- buying from marketers.

The two states are giants of the retail gas world with over 60% of the residential enrollment in 2009. Some 21 states and the District of Columbia (DC) have legislation or existing programs that let residential consumers and other small-volume gas users buy gas from marketers. The number of states with choice stayed the same since 2003 but the availability and characteristics of the different state programs vary widely. DC plus seven of the 21 states let residential consumers choose their gas suppliers but a lack of marketer participation has precluded the development of competitive retail markets in three of those states.

Six of the 21 states implemented choice statewide with programs available to over half their residential customers and another eight states have pilots or partial unbundling programs in place or awaiting development.

[Comments]

Natural gas shopping numbers

State/category	Eligible in 2009: 2008 customer total	Eligible in 2009: Total	Eligible in 2009: % of customers	Participating in 2009: Total	Participating in 2009: % of eligible	Participating in 2009: % of 2008 customer total
Statewide unbundling: Active programs -- 100% eligible						
DC	142,819	138,396	100	12,368	8.9	8.7
New Jersey	2,601,051	2,638,783	100	59,207	2.2	2.3
New York	4,303,335	4,290,331	100	687,245	16.0	16.0
Pennsylvania	2,631,340	2,633,384	100	183,641	7.0	7.0
Subtotal	9,678,545	9,700,894	100	942,461	9.7	9.7
Inactive/limited programs						
California *	10,515,162	10,515,162	100	34,391	0.3	0.3
Massachusetts	1,390,180	1,336,416	100	1,547	0.1	0.1
New Mexico	556,905	556,905	100	16	less than 0.05	less than 0.05
West Virginia	347,368	347,368	100	6	less than 0.05	less than 0.05
Subtotal	12,809,615	12,755,851	100	35,960	0.3	0.3
Total (100% eligible)	22,448,160	22,456,745	100	978,421	4.4	4.4
Statewide unbundling: Implementation phase -- greater than 50% eligible						
Georgia	1,791,256	1,461,748	81.6	1,461	100.0	81.6
Illinois	3,869,308	2,908,454	75.2	271,067	9.3	7.0
Maryland	1,057,521	1,042,341	98.6	125,366	12.0	11.9
Michigan	3,172,623	3,136,895	98.9	340,189	10.8	10.7
Ohio	3,262,716	2,863,664	87.8	1,665,256	58.2	51.0
Virginia	1,113,016	661,653	59.4	55,711	8.4	5.0
Subtotal	14,266,440	12,074,755	84.6	3,919,337	32.5	27.5
Pilot programs/partial unbundling						
Colorado **	1,606,602	0	0	0	0.0	0.0
Florida	679,265	14,440	2.1	14,440	100.0	2.1
Indiana	1,678,158	150,000	8.9	93,599	62.4	5.6
Kentucky	753,351	123,028	16.3	29,614	24.1	3.9
Montana	253,122	36,065	14.2	457	1.3	0.2
Nebraska	512,013	69,022	13.5	69,022	100.0	13.5
South Dakota ***	165,694	NA	0	NA	0.0	0.0
Wyoming	152,439	66,883	43.9	35,816	53.6	23.5
Subtotal	5,800,824	459,438	7.9	242,948	52.9	4.2
Overall totals	42,555,424	34,990,938	82.2	5,140,706	14.7	12.1
2008 US customer total	65,253,954					

** Based on EIA Natural Gas Annual 2008 (March 2010)*

*** Law allows unbundling but no utilities have submitted unbundling plans*

**** Has partial unbundling but residential data not available*

Source: EIA

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From page one

power they avoid consuming. When customers are on a full LMP retail rate, they would get twice the value of LMP.

The proposal is inconsistent with fundamental economics and would over-compensate DR and negatively impact the efficient running of energy markets, said the monitor.

It all started with PJM…

The NPRM was born out of PJM's proposal for a new DR program and it cited a decline in energy market compensation as the main cause of declining participation. However, the monitor noted a wide array of factors led to falling DR in PJM. One notable reason last year was far lower LMPs than were seen in prior years.

While compensation for DR in the energy markets fell in recent years, it is far from the only source of income for the resource. DR payments from PJM's capacity market jumped up to $303 million from $141 million. Netting out lower energy and other revenues, DR still saw compensation rise by 74% from 2008 to last year, reaching a total of $308 million.

EnerNOC also recognizes that PJM's capacity market and other ISOs with similar mechanisms saw an explosion of DR potential. However, the firm argued that since the resource is treated the same as generation, the same should be true in energy markets.

California, NY PSC weigh in

Still other comment filers fell somewhere in between the two main sides of the argument.

The New York PSC believes full LMP at all hours is warranted since DR participation has been low in the New York ISO's energy markets. It couched that support by saying that full LMP is an incentive and compensation should be reviewed within at least five years to see how it has affected the markets.

Full LMP may lead to uneconomic DR decisions in the markets but it helps to account for the cost of externalities and will help overcome the lack of interest in energy market DR programs in NYISO, said the New York PSC.

The California PUC believes a one-size-fits-all approach could hinder the efforts in very different ISO/RTOs around the country to develop the resource. The PUC is a big supporter of DR, it is second in the state's "loading order" of preferred resources, and has been working with the California ISO to integrate it into its markets. The commission is working to get out advanced meters with dynamic rates in the next few years.

The California PUC did not take a position on full LMP for all hours of the year since Cal-ISO's programs are evolving -- but it wants to see many flowers bloom so different policy options can be tested out.

NECPUC and the Maryland PSC support full LMP but only when power prices are at their highest since that is when DR is most valuable to the markets and such payments are warranted. When demand gets near the limits of available supply, prices start to rise much more rapidly and DR can cut the price much more than in low-demand hours, said the Maryland PSC.

[Comments]

2 stories in 1 minute

Consumers Energy told to make refund: The Michigan PSC told Consumers Energy to refund part of its self-implemented rate increase to natural gas customers. The PSC is letting Consumers see a boost of about $65.9/year. The amount is below the $89 million the firm began self-implementing in November. Now the IOU has to give back about $23.1 million on an annual basis, plus interest. In the end customers will pay about 2.8% more than they did before the new rate went into effect in 2009. Consumers Energy has to file a refund proposal with the PSC by Aug 19.

NStar asks to drop power rate below 8¢: Massachusetts IOU NStar filed a new rate plan with state regulators to knock the price of power below the 8¢ mark. The rates would cover July through December. The basic service supply price for all NStar residential customers will drop by 10%, from 8.88¢/kWh to 7.98¢. The drop can be largely attributed to the discovery of new gas supplies -- the fuel most used to generate power in the region -- and a moderation in the price of oil.

[Comments]

Gexa seeks settlement of complaint from customer

Gexa Energy wants the Texas PUC to toss out a complaint against it alleging it violated a variable rate contract after it paid the customer $914, it said in a Friday filing. The complaint, originally tabbed William Brownsberger v Gexa Energy (RT, Feb-01), alleged the retailer overcharged him and two other customers by raising retail prices as wholesale power prices were coming down.

Brownsberger has since left the complaint with only David Upham still in the complaint and Gexa maintains the only remedy available to him is a refund and that is why it is offering him $914.85 that it said is the maximum possible overcharge.

The retailer does not believe it violated its contract or PUC regulations in the case but sees the refund as cheaper for both parties than continuing with litigation.

Upham originally asked for non-compensatory relief but the PUC decided that can't be ruled on thus Gexa opted for the refund.

[Comments]

Abbreviations: To see a glossary of *Restructuring Today*'s abbreviations, go to www.restructuringtoday.com/glossary.

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