Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

Thursday, April 28, 2011

Exelon and Constellation merger to create competitive behemoth

Exelon plans to buy Constellation Energy for $7.9 billion, creating the largest competitive electricity company in the country, the two announced early this morning.

The resulting firm will be called Exelon and remain headquartered in Chicago. Constellation's retail and wholesale business will consolidate with Exelon's power marketing business, keep the former's brand and stay headquartered in Baltimore.

"This merger creates the number one competitive energy provider with one of the industry's cleanest and lowest-cost power generation fleets and one of the largest commercial, industrial and residential customer bases in the United States," said Exelon CEO John Rowe. "Both Exelon and Constellation have demonstrated their commitment to sustainability and competitive markets, helping drive innovation, efficiency, customer choice and better rates. Together, we will be an even stronger advocate for achieving these ideals."

The new firm will be the largest competitive energy products and services supplier by load at about 165 terawatt-hours and customers with 35,000 C&I customers and millions of households across 38 states, the District of Columbia and parts of Canada.

Combining the three utilities the two firms own -- Baltimore Gas & Electric, Commonwealth Edison, and PECO -- will make the new company the second largest residential and gas distribution company and have it serve 6.6 million customers. The utilities will remain separate firms and stay based in their respective cities.

The company will have more than 34 GW of power generation, and add to Exelon's status as the largest nuclear generator with 19,000 MW in total. That fleet will be clean with 55% nuclear, 24% gas and 8% hydro or renewables.

The market capitalization will be $34 billion with an enterprise value of $52 million.

Constellation CEO Mayo Shattuck will become executive chairman of

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FERC tosses out California transmission developers' complaint

FERC tossed out another complaint from independent transmission developers against the California ISO (Cal-ISO) in an order issued yesterday. Transmission Technology Solutions (TTS) and Western Grid Development (WGD) alleged that the ISO's treatment of their proposals was unjust and discriminatory. Their complaint was fairly similar to another that FERC threw out just over a week ago (RT, Apr-18).

The two firms tried to install smart grid devices on Cal-ISO's transmission system to avoid future needs as required by NERC's reliability standards. They argued that the ISO failed to study them properly and favored competing projects offered by the local utility.

TTS tried to become a "participating transmission owner" to better fit into Cal-ISO's system but its application was rejected and the firm argued it was a Catch-22 situation where it had to already be a transmission owner to become one. Cal-ISO's tariff only lets transmission owners with a service territory build projects, so the two developers might not have been able to construct their own proposals even if they were certified.

Other non-incumbents have become transmission owners in Cal-ISO -- namely Trans-Elect, Trans Bay Cable and Startrans. They just went about it differently -- FERC ruled that the Cal-ISO adhered to its tariff in rejecting TTS' application.

The firms also alleged that the ISO did not properly weigh the costs in rejecting their proposals but FERC was not convinced. TTS's proposal had a cost of $16.3 million but Pacific Gas & Electric had another option at less than $5 million, which was also a longer term fix.

WGD's $37.5 million proposal was cheaper than PG&E's $40 million alternative but the latter's project solved more concerns and avoided future investments, said FERC.

[Comments]

FERC's Moeller reflects on markets at annual NEM conference

FERC Commissioner Philip Moeller is pleased markets have been expanding in recent years, he told NEM's 14th annual National Energy Restructuring Conference yesterday in the nation's capital. "It's easy to forget, I think, unless you have a broad platform at the national level, how much wholesale electric markets really have expanded over the last couple of years," he added.

California's market launched basically two years ago with the Market Redesign & Technology Upgrade bringing back a day-two market that had not existed in the state since the energy crisis. Despite fears that market "would be a disaster, that it would be a replay of 2000-2001," said Moeller, "here we are two years later -- and yes, there are challenges with the market and people have complaints but for the most part, MRTU has gone off without certainly a major hitch." The California ISO's (Cal-ISO) new system has been a reliable, effective method of managing one of the major electric markets in the country, he added.

ERCOT recently switched over to nodal, adopting many of the features found in FERC-regulated ISO/RTOs including a day-ahead market.

And just this week, Entergy announced it will join MISO due to the grid operator's day-ahead market. Moeller was careful to point out that he was not commenting on the merits of Entergy's decision as it will come before FERC but the choice of the major, multi-state utility is illustrative of the expansion of wholesale markets generally.

Some utilities have moved between RTOs recently but they are not abandoning the organized markets -- they are just moving into new ones, he added.

The renewable industry, particularly wind, is changing the basic dynamics of the industry and could lead to market features in regions where they have historically been completely absent.

The Pacific Northwest, Moeller's home, has been generally anti-market since the energy crisis but with the huge amounts of wind -- much of it for California's needs -- swamping its dams' ability to handle it, market dispatch mechanisms could help to integrate the new resource.

The Bonneville Power Administration is really "jammed up" this year with a huge snowpack feeding its dams and it wants to shut off the wind power to balance the grid, said Moeller. Wind operators obviously are not happy with that since they cannot make money when their plants are idle.

"You see wind pushing these kinds of responses throughout the organized markets, even in the non-organized West," said Moeller.

Even without an RTO outside of California, the West has had a market for decades, Moeller told us after his remarks. The Northwest could not get by its winter peaks without power from the Southwest, and the reverse is true in the summer and fall.

Right now the region needs more transmission due to the amount of renewables online and those planning to, he added.

[Comments]

Pennsylvania Commissioner Cawley seeks end to IOU as merchant

Pennsylvania PUC Commissioner James Cawley is sticking to his plan that IOUs should leave the merchant function in his state, he told the NEM National Energy Restructuring Conference in Washington, DC sponsored. "We're thinking seriously about advocating to the legislature about having utilities exit the merchant function," said Cawley.

The reason is simple, default suppliers have an unearned competitive advantage by serving customers that do not select them, he added. Getting rid of the default provider mechanism would spur shopping, he believes. Default service could be slowing shopping in the PPL territory where about 2/3 of customers not switching with some even paying a 30% they shopped.

"Opt-in programs are only so successful, only so many people will shop," said Cawley.

The Pennsylvania PUC looked at several issues, with various members leaning toward different ideas, he said. One option would be to make default service "ugly" by forcing it to rely on spot pricing or other high risk pricing mechanisms. "The idea would be to make it so high priced that it would force people to pick up the phone and switch," said Cawley.

One of the obvious drawbacks is that such a move would financially harm those who, for whatever reason, do not shop.

The PUC also looked at the Georgia natural gas model. While that market is often cited as one of the best examples of choice in the nation, it weathered some pains getting to that point. Georgia's model customer's had an initial window to shop and once that was closed customers would be assigned to suppliers. When the open season ended, about 1.1 million shopped and another 280,000 customers were assigned.

"This is good. We looked at this, Georgia pushed people to what was in their best interest," said Cawley. "But some suppliers were not ready for such a big shift."

The PUC is already taking steps to put a stop to the idea of opt-out municipal aggregation since it in effect keeps all but one marketer out of an area and acts as a sort of monopoly situation for the firm winning the aggregation deal, she added.

The idea Cawley liked most was the possibility of auctioning all default service customers off to marketers in blocks, then using the proceeds of the auction to help in other areas such as financing choice education programs or to pay down such things as above market solar contracts.

"Not everyone on the commission sees it the way I do, but I think this has a lot of merit," said Cawley of an auction plan.

The PUC is just kicking around ideas of what could be done to replace default service and replacing default service regulators need to look at all the drawbacks of possibilities and not just look at the potential for benefits, Cawley told marketers and regulators.

[Comments]

AREM debates allocation for departing California customers

The Alliance for Retail Energy Markets (AREM) and the Marin Energy Authority (MEA) want a few changes before a proposed rule on cost allocation for utility generation in California is made final. SB 695, which opened up C&I competition and raised rates for residential customers, said that the PUC would have to address the cost allocation of utility generation for departing customers, too.

Generation built to meet the reliability needs of all the customers in an area is supposed to be allocated to all the beneficiaries of it including those who have left utility service. Other generators meant to meet the future needs of bundled customers, or to meet local needs that do not benefit all customers, would not get the treatment, said AREM.

One area of concern for the retailer lobby is that a proposed decision from a PUC ALJ would let utilities that voluntarily build their own generation push its costs on customers who switched. AREM argued that only generation built by a utility to meet a PUC order should get the cost treatment.

MEA also wants to see only PUC-ordered generation get the treatment since discretionary procurement might not be needed for system reliability. The community aggregator and other alternate suppliers have to meet resource adequacy standards as well so imposing further costs on their customers can stifle retail competition.

A utility that was not receptive, or even openly hostile, to retail competition in its service territory would find it convenient to seek to impose ever greater costs on departing load to frustrate competitive options, said MEA.

The PUC still has work to do to define and develop the criteria needed to make the determinations. AREM asked to undertake a comprehensive review of the cost allocation mechanism and wants the commission to look into allocating the benefits of the generation beyond the capacity -- including renewable and emissions-cutting attributes.

[Comments]

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the new company, while Exelon COO Christopher Crane will become the combined firm's CEO. Rowe plans to retire on completion of the merger.

The new company would plan to directly invest some $250 million in the state of Maryland, including a $100 credit for every BG&E customer.

The merger has to be approved by FERC, several state regulatory commissions, the Nuclear Regulatory Commission and others. The firms expect it to close early next year.

"The combination of these two companies will drive innovation and value for customers by combining Exelon's abundant clean energy supply and Constellation's leading customer-facing sales and marketing platform," said Shattuck. "This enterprise will have the scale and financial strength to drive expansion in competitive energy markets as well as new investment in the next wave of clean generation and sustainable products and services."

[Comments]

2 stories in 30 seconds

C&I firm negotiates FirstEnergy discount: The Oho PUC yesterday approved a 10-year rate agreement between C&I firm Timken and FirstEnergy where Timken will receive a 15% discount on current rates during the first year of the agreement. The discount will decline by 1% each of the next five years of the agreement and by 2% during each of the last four years. In exchange for the breaks the firm agreed to combine its energy efficiency efforts with the IOU.

Saskatchewan OKs carbon capture: Saskatchewan approved $1.24 billion (US$1.3 billion) for a power plant with carbon capture. Building will start immediately with operations set to start in 2014. The plant is slated to generate 110 MW.

[Comments]

Maryland Commissioner Timmerman reports data concerns

Maryland may have some work ahead to adequately protect smart grid customer privacy, Calvin Timmerman, the Maryland PSC's assistant executive director, said yesterday. Such an effort is not under way. Timmerman was one of several regulators speaking at NEM's 14th annual National Energy Restructuring conference in Washington, DC. Upgraded privacy protection "has not been discussed, rejected or approved -- but it is still possible and can be in play," Timmerman said, noting that he was speaking for himself, not for the commission.

Existing PSC rules call IOUs custodians of customer information and, through a deal with a retailer, a consumer may allow a marketer to access to some use information. Some of that information may be sent to potential suppliers but only with customer approval and for the purpose of making an offer. Those rules could change only if the commission takes up the issue, said Timmerman.

The smart grid is making available more-detailed information, usable in more ways, than did the traditional power system, said conference speaker Orjiakor Isiogu, commissioner of Michigan's PSC, so a stronger effort is needed to keep customer information secure and keep being transferred without customer consent. Unscrupulous firms could break the rules to get an edge, he warned. If they do, penalties and prosecution have to be strong enough to deter future misdeeds and to avoid the firms' conclusion that some punishment is just a cost of doing business.

Customers' information should be shared only with voluntary consent,

As Delaware regulator seeks active market, POR offered as answer

With some of the hottest retail power markets on its borders -- Maryland, New Jersey and Pennsylvania -- Delaware PSC Chair Arnetta McRae wants to see similar success in her state. She was speaking on a panel at the annual NEM National Energy Restructuring Conference in Washington, DC, yesterday. McRae asked retailers and other market representatives what her state needs to do to see switching grow in the residential market.

"On the residential side, we haven't seen much retail competition," said McRae, who believes the C&I sector is doing well. "Perhaps the commission needs to step up advertising. We usually would leave that up to retailers but perhaps there is a way we can help get the word out."

A purchase of receivables program (POR) would be a key step, said WGES President Harry Warren. His firm has seen some success in Delaware's C&I market. During the two day conference, representatives of Maryland and Pennsylvania called POR a key driver in getting residential markets off the ground. "However, we know that some smaller commissions are challenged to have staff available for topics like that," said Warren.

Marketers need to see support from the top levels of state government for their efforts to come into a state and open up shop, said Warren.

"It is very difficult to make the case for residential choice in Delaware because we are so small and with everything else going on in Delaware, retail competition is not the focus of those at the top," said McRae. When it comes to energy, the state leadership is focused on green and clean energy, not choice.

"I think it really depends on [retailers] to speak up. It's really not under [PSC] control at this time," said McRae.

Lula Ford, a commissioner with the Illinois Commerce Commission, told attendees she hopes POR will help boost the retail market in her state. As marketers and others spoke, she listened and took notes.

[Comments]

he added. “Consent by default would be unacceptable under most circumstances. Caution should always be our mantra.”

[Comments]

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

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