Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

Wednesday, October 12, 2011

Constellation, Exelon agree to merger settlement with Bowring

Constellation and Exelon agreed to a settlement with PJM's independent market monitor to alleviate his concerns with their merger's expected effects on wholesale competition in the RTO. The two firms had planned to sell three units to pass FERC merger screens but the monitor and others worried that if those three plants went to an incumbent supplier in PJM, it could end up making market power concentration worse (RT, Jul-25).

The new firm will not be able to sell its generators to AEP, FirstEnergy, GenOn Energy, Edison International, Dominion Resources, PSEG, Calpine, PPL or any of their directly or indirectly held subsidiaries.

The monitor, Joseph Bowring of Monitoring Analytics, filed comments at FERC and the Maryland PSC as they reviewed the deal -- and the regulatory bodies will have the final say in making the firms comply with the settlement. If the firms are made to comply with it, Bowring would not object to their deal.

The settlement also includes curbs on how and when the new firm could retire a plant. Absent a catastrophic failure or significant regulatory changes that make continued operation uneconomic, the new firm will not retire a unit unless it has offered it into PJM's capacity market at its offer cap and it failed to clear.

The merged firm would have to give 18 months notice to PJM and the monitor before retiring any generation units, giving the RTO time to weigh any reliability impacts if any and to come up with a reliability must-run agreement.

Uprates of units would be subject to seller offer caps in the capacity markets and if they change the operational characteristics of a unit, the new firm would have to give the monitor data showing the improvements are economically sound.

The settlement also puts controls on energy market offers including making them stick to the physical characteristics

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NEM event highlights power of doing POR right the first time

New Jersey regulators heard yesterday that POR is an important aspect of competitive natural gas and power markets, but that it needs to be done right the first time to avoid problems down the road.

The remarks were made yesterday at the NEM Fall Leadership Roundtable in Trenton, NJ.

One such problem raised was the assertion by Columbia Gas in Maryland in 2010 that not having choice was a better option than dealing with POR. The current discount rate did not cover the IOU's implementation costs, it said, and the firm believed eliminating choice in its territory was the best option.

Marketers then got together and paid the IOU about $200,000 to satisfy the firm and keep choice alive, said Washington Gas Energy Services President Harry Warren. "This is one of the horror stories -- and they are out there -- but it just underscores the importance of getting it right," added Warren.

Columbia is a small gas utility with fewer than 40,000 default customers and fewer than 1,000 choice customers at the time. For comparison, Baltimore Gas & Electricity and Washington

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Chu says DOE will not delegate corridor-picking to FERC

Energy Secretary Steven Chu yesterday announced his department will not delegate the authority to pick national interest electricity corridors to FERC. DOE and FERC considered the idea as a way to revitalize the backstop siting authority granted to the two agencies by the Energy Policy Act of 2005.

Attempts to use the backstop authority never got very far and essentially halted after court rulings took the teeth out of the law. But DOE vowed to work more closely with FERC in reviewing proposed electric transmission projects and change major aspects of its corridor-picking process.

"This nation promptly needs to build the electric grid of the 21st century to compete in the global economy," said Chu. "Enhanced cooperation between DOE and FERC is the best way to achieve this goal."

The move to not delegate its authority followed NARUC and one of EPAct 2005's main authors Sen Jeff Bingaman, D-NM, voicing opposition to the proposal. The proposed delegation was to be one of the main subjects of a House Energy & Commerce hearing tomorrow, though that will also cover the recent FERC Order 1000 on planning and cost allocation.

NARUC viewed the decision not to delegate as a "positive step," said its Executive Director Charles Gray. "While we still need to see the details of this proposal, it is clear that Energy Secretary Steven Chu gave strong weight to the concerns raised by us and numerous other parties," he added.

"State public service commissioners understand as much if not more than anyone else about the importance of modernizing our nation's electrical system," said Gray.

DOE and FERC will be working together to prepare drafts of the transmission congestion studies mandated by Congress, which will be supplemented by planning efforts based on FERC Orders 890 and 1000. The two agencies will also work together on environmental analyses for any proposed national corridors.

The department plans to immediately start identifying targeted areas of congestion based on the evaluation of information and existing information and comments submitted by stakeholders.

DOE plans to identify narrower areas of congestion than the broad areas previously studied. The last round of corridors included almost all of the state of Pennsylvania.

The department will be soliciting statements of interest from transmission developers while considering what national corridors to designate.

[Comments]

Top New Jersey regulator wants to see marketers pay for outreach

Consumer education is an important aspect of helping to foster competition in the early stages, marketers said yesterday at an NEM leadership conference in Trenton, NJ, but state officials are reportedly not jumping on board so fast. A consumer education program costs money and New Jersey Board of Public Utilities President Lee Solomon said that was something in short supply in the state.

"The days where we will spend budget money to do that type of communication is probably over," said Solomon, pointing to budget cuts in most departments including communications -- to keep the basic operations budget afloat. "If it's not something done by the utilities, it's probably not going to get done."

While an education program has a place in a choice market, it is not a perpetual item and once a market matures, programs can be modified or changed and perhaps over time discontinued, said Suzanne Sweeney, the manager of customer energy services at IOU Orange & Rockland.

Any expenditure to help the market along is not soon in coming, said Stefanie Brand, director of the BPUs Division of Rate Control. "I'm in kind of a wait and see," she added. "I'm wondering how many of you will be around when the BGS [basic generation service] auction catches up. I'm waiting to see before we put all our eggs in one basket."

The BGS auction is New Jersey's power supply procurement process that averages three years of auction prices to create default prices. An auction is conducted each year for 1/3 of the needed supply and the most recent three auctions are averaged together.

With the three-year average, marketers now have the advantage, said Brand, who wants to see what happens when BGS prices start to come down and put pressure on retailers.

Solomon would like to see a "truly open and truly competitive market," and in his mind that means that the retailers pay for their own advertising and education programs and if they do not and they fail, that is a product of the market working.

"If one of the costs of a competitive market is reaching out to customers, you'll get it done," he said.

[Comments]

Environment America offers CO2 strategy, praises current progress

Environment America believes state and local policies can move the ball forward on global warming even in the absence of any federal action. The environmental group released a new paper called "The Way Forward on Global Warming" at a press conference yesterday.

Existing policies have led to cuts in CO2 emissions well beyond those caused by the economic downturn, said the report. DOE in 2004 forecasted emissions of 6,453 million metric tons in 2009, but the actual tally came in at 5,405 million metric tons -- a 16% difference.

Those policies on the book would cut 7% of the CO2 by 2020, said the group, but it believes that cuts could easily reach 20% by that year with added policies such as higher building efficiency, renewable energy mandates and enforcing existing state limits on global warming.

Congress has not proven to be a fruitful forum for any kind of major action, said Environment America Energy Program Director Rob Sargent. The House flipped to the Republicans in 2010 and they opposed environmental laws on the books. The Democrats' majority in the Senate grew even thinner from last session when climate change legislation died there.

Investors need market certainty to move on any and all of these policies, which is something former Colorado Gov Bill Ritter, D, tried to do for clean power while he was in office. That state went from a 10% renewable portfolio standard to 30% on his watch while retiring 1,000 MW of coal by replacing it with equivalent natural gas generation.

Plenty of other states are moving forward on their own programs but

Ritter still sees the need for a federal price on carbon to produce real market certainty, he said at the press conference. "I supported federal policy that would give us market certainty and I think that comes best from pricing carbon -- better than it does in running a cap-and-trade program that has now become so politicized, it may be difficult, if not impossible to pass," he added.

The biggest roadblock the report identified was the influence of "fossil fuel interests," though in states that rely on coal for most of their power, opposition to pricing CO2 can go beyond those.

Coal-rich states are a challenge to get action in but transportation policies represent a potential way forward there and the report identified specific areas where Environment America believes progress is possible, said Sargent.

While historically coal has been among the cheapest ways to produce power, Ritter noted that gas has beaten it on that front often, so it could make sense switch fuels as his state did.

[Comments]

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of the unit and having peaking generators offer at their costs with small adders. The only time a unit would be offered as "max emergency" for over a week would be to comply with environmental regulations or with the monitor's approval.

Each nuclear unit the new firm owns in PJM will be run at its economic maximum unless it is cut in response to negative prices, physical limits on the plant or transmission limits.

Ancillary services offers would have to be consistent with the historical practices of the predecessor firms.

The restrictions outlined in the settlement will be in place for 10 years after the merger's consummation unless the new firm finds a valid reason for changing them and works with the monitor in good faith to amend the deal. If the two cannot agree, the new firm could go to FERC to get the settlement changed.

[Comments]

NEM event in New Jersey touts market growth there, nearby

New Jersey has more space to grow in terms of power shopping -- with account migration at about 10% and choice load at under 40%, said NEM president Craig Goodman yesterday at the groups Fall Leadership Roundtable in Trenton, NJ. The market should keep its upward momentum, he added.

"We have a boom market here in the middle of a recession and [New Jersey] is a bright spot nationally during these harsh economic times," said Goodman.

He pointed to growth in other markets that border the Garden State, including a jump from 43 shoppers in Pennsylvania in October 2009 to over 1 million in April 2011 as rate caps expired and marketers moved in. New York is a success too, he added, where 1.4 million customers shop.

The shopping message is not lost on the New Jersey Board of Public Utilities (BPU).

"If we can get to the day where the consumer can decide what kind of energy they want, what they want to pay for that energy and we have an assortment of products and options, then we will have a great market," said BPU Chairman Lee Solomon. "Are we going to get there in my lifetime? I don't know, but we won't get there in one day. You can already see the pendulum swing in that direction a little."

Solomon offered a word of caution to the marketers and industry executives gathered in New Jersey's capital -- though he was not speaking directly on energy. "If there is a truly open, truly competitive market -- not gamed, not fixed -- we are fully in favor of that.

"We would welcome that in New Jersey. The BPU and I am sure the Governor and Lt Governor would welcome that."

[Comments]

California group praises IOU plans to report GHG allowances

The Direct Access Customer Coalition supports the proposed methodology of California's three main utilities in allocating the value of greenhouse gas allowances under its state cap-and-trade program. The utilities want to allocate 100% of the allowances through a delivery rate credit to ensure equal treatment of direct access customers who get power from retailers and utility customers.

A model offered by the utilities that was posted last week has an allocation income of $200 million -- spread among customers based on how much power each segment uses. The model showed a cost boost of $180 million for the law.

The credits would show up on customers' bills under their generation costs, either ones charged by the utilities or by retail firms. DACC supports a proposal by Pacific Gas & Electric to show the specific credit on every customer's bill.

The approach will be competitively neutral, administratively simple and easy for consumers to understand, the group added.

The utilities will be able to implement the allocation fast while retail customers will be able to see that their newly-higher generation rates are offset by greenhouse gas emission credits appearing as a line item in their delivery rates.

The proposal will provide bill relief for all retail customers while meeting the PUC's imperative to avoid dampening price signals sent by the law.

[Comments]

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PJM responds to Bowring concerns about black-start rule changes

PJM told FERC yesterday that proposed changes to its black-start services are reasonable and designed to encourage the service by ensuring enough cost recovery. PJM's independent market monitor filed a protest against the RTO's proposal, arguing it was only designed to make up for sloppy record keeping at some older units (RT, Sept-22).

NERC cyber security standards are forcing upgrades for plants who want to provide the service, including long-depreciated plants that did not keep all the records needed to show their costs for providing the service.

PJM argued that the rule changes will largely keep the same, previously-approved cost recovery method in place that guarantees black start service units are afforded the chance to recoup incremental costs needed to offer the service when they guarantee their plants' availability.

The recently-proposed changes only seek to provide more ways to account for those incremental costs including letting units use an approximation of their fixed costs based on their capacity.

The monitor argued that that approximation of costs represented an incentive but PJM told FERC it was a mechanism designed to provide an owner with an appropriate return on its investment.

[Comments]

1 story in 30 seconds

Marketer teams up with heating-oil firm: Marketer US Gas & Electric (USG&E) announced yesterday a partnership with home heating oil provider Petro where the latter will provide home heating oil, power and service plans to C&I and residential customers. The firms will provide service to both classes of customers initially in New Jersey and the New York City metropolitan area. Expanding the partnership into other areas could come later, said USG&E in a prepared statement.

[Comments]

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Gas combined had just over 1 million customers on the books.

POR replaced other remittance systems such as a payment hierarchy that in effect gave money to IOU current charges, marketer current charges then IOU arrears and marketer arrears, in that order.

Another system POR replaced was agreeing to a share of each dollar among marketers and IOUs. POR was created when marketers realized they were getting paid last but had no control to collect debt or to turn off the lights, said NEM President Craig Goodman.

Whatever negatives may have been associated with POR in the past, he added, its success at opening a market cannot be minimize. Within six months of starting POR in New York, the state grew from 30-40 marketers to over 100 working in the state.

"The numbers in Pennsylvania were even more dramatic than in New York and all they did was implement POR properly," said Goodman. "Whatever state we've been to, POR has been a game changer."

[Comments]

Maryland governor rallies for wind at industry event in Baltimore

Jobs and renewable energy were the talking points yesterday in Baltimore as Maryland Gov Martin O'Malley spoke before the American Wind Energy Assn's Offshore Windpower Conference and Exhibition at the Baltimore Convention Center.

"Of all the challenges we face as a country, and of all the tough decisions we have to make together as a people, our top priority must be jobs," said O'Malley. "We have on-shore wind turbines spinning in western Maryland and we are very much committed to making offshore wind a reality off the coast of Ocean City.

The state has a goal of reaching 20% renewable energy by 2022. One of the connections between jobs and wind power offered by O'Malley was a DOE and NREL estimate that a 500-MW wind project would create 2,000 manufacturing and construction jobs and an additional 400 ongoing jobs thereafter.

"Maryland is blessed to have the combination of an exceptional wind resource at shallow depths offshore near our major load centers like Baltimore City," said Malcolm Woolf, director of the Maryland Energy Administration. "Offshore wind has the potential to transform our energy future, advance energy independence, improve public health and create thousands of jobs in Maryland."

[Comments]

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