Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

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NEMA's Goodman gives marketer view on feds gas price report

As we reported yesterday, Georgia PSC Chairman Stan Wise wants filings next week with explanations from marketers on why Atlanta's average gas prices are 37% above the national average (RT, Jan-05). Today we report the details.

The federal Bureau of Labor Statistics (BLS) released data late last month for November, 2011 showing that Atlanta had prices 37% above the national average for natural gas. The agency reported that the percentage grew from 26.9% in November, 2010.

NEMA President Craig Goodman yesterday gave us some insight into what he called his investigation of the facts behind the conclusions reached in this BLS report. He stressed his eagerness to see how the industry responds to Wise's request.

The BLS report put the average Atlanta price at $1.431/therm compared to the national average of $1.044/therm. But marketer prices listed on the Georgia PSC's website for both variable and fixed-rate plans did not show November prices that high.

Most of the variable product prices offered by marketers listed for the month on the PSC website were around $1/therm and some were far less. The fixed-price products tended to range from $1-1.20/therm, which is still lower than BLS' number.

"If you averaged all of these numbers, there's no way you'd come up with a buck forty," Goodman told us. "And this is for fixed price. They're all operating around the national average."

Comparing a national average, which is largely made up of regulated monopoly prices, to offerings in one of the premier natural gas retail markets in the country does not lend itself for apples to apples comparisons, said Goodman.

Utilities have both a financial incentive to sell gas at below market rates and the legal ability to recover the losses with interest over time from their consumers, which is one of many fundamental flaws of permitting monopolies to compete in competitive markets, said Goodman. It significantly raises barriers to entry plus boosts the risks of investing private capital -- potentially driving out many very competitive offerings from the market place, he added.

"You're looking at basically monopoly prices in the national average," Goodman said. "It doesn't tell you anything about whether or not the consumer is seeing an actual comparison of the real price for utility gas because too often many costs associated with utility commodity prices are hidden in non-bypassable distribution costs, thereby making true apples-to-apples comparisons with competitively market-priced gas virtually impossible," said Goodman.

One potential explanation for the discrepancy, Goodman said, is consumers are not picking up the phone and shopping enough. The new deals on the market are all mostly at the national average and well below BLS' report, with some introductory offers starting at significantly less than the agency's projections.

Goodman believes Chairman Wise made the right move in inviting responses from marketers on the situation next week. NEMA will be very interested in what marketers officially tell the PSC as well, he added.

He shared some advice for consumers. "Take a look at your bill.

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EPSA calls attention to onsite diesel generators used as pseudo-DR

EPSA used a proposed settlement between EPA and DR aggregators to point out what it sees as unresolved issues about DR using backup generation when it is supposed to be cutting demand. EPA put a proposed settlement with EnerNOC, EnergyConnect, CPower and Innoventive Energy in the *Federal Register* Tuesday to expand a proposed exemption for backup generators for DR under the agency's National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines.

EPA originally proposed to letting backup generators used in DR to run up to 15 hours/year, but that did not fit in with ISO/RTO tariffs for DR that often require more minimum availability from DR. PJM needs its emergency DR to be available at least 60 hours/year, which is the highest such requirement, so EPA agreed to extend the exemption to 60 hours.

The settlement underscored the "significant concerns" that EPSA brought to the attention of FERC in the process that led to Order 745, which proposed to pay DR full LMP pricing at peak hours, noted EPSA CEO John Shelk.

"One of the many issues EPSA raised before FERC relates to the potentially large amount of demand response that is actually supported by behind-the-meter generation instead of representing true demand reduction," he added. "Cranking up diesel engines is not demand response as it has been advertised. FERC did not adequately address this issue in either the final demand response rule or in its order denying EPSA's rehearing request."

Running smaller, less efficient generation over clean, on-grid power plants that have to meet more stringent Clean Air Act requirements can lead to adverse environmental consequences, said Shelk.

In their request for the change to the final rule, the DR aggregators claimed that their product offers environmental benefits, even when it is based on backup diesel generation. DR is generally deployed to stop a blackout, which means customers end up running a few backup generators rather than all of them in an affected area.

The DR aggregators cited a report from Synapse Economics done for the EPA that found DR cut criteria pollutants when it was used for reserves. The report used fuel prices and load from New England in 2006 and found that even when DR is all based on diesel, it cut pollution.

But DR is not all diesel generation. It includes customers cutting back on the air conditioning and lighting use that means no pollution at all is emitted, said the DR providers.

EPSA wants to see a thorough factual record to understand the full consequences of EPA's rules for onsite engines -- and FERC's DR compensation scheme before either agency implements them, said Shelk. That analysis might show such DR is cutting off opportunities to build new central station power plants, he added.

[Comments]

PennFuture explains how state government derailed efficiency program

A Pennsylvania consumer advocacy group filed a right-to-know request with the commonwealth's Dept of General Services (DSG) to make public some proposed changes to Pennsylvania's Guaranteed Energy Savings Act (GESA). That news came from Christina Simeone, director of Citizens for Pennsylvania's Future (PennFuture), in a telephone conference with the press yesterday.

The GESA program lets state government agencies, towns and school districts contract with energy providers that provide installation, operation and maintenance services for energy efficiency improvements. Those energy firms have to prove they can make 10-15-year energy savings commitments to earn contracts.

DSG essentially shut the program down last year by putting it on review and transferring or terminating its staff, PennFuture said. But the department lacked context for allegations that the program was "flawed" and "not returning value to the taxpayers" by keeping its evaluation private, PennFuture said.

With the changes being proposed, "we really haven't been provided justification as to how they will improve the program," Simeone said. "With changes that we believe will negatively impact the program, why do they think they will positively impact the program?"

Agencies of the commonwealth alone saw 12 departments engage in 69 projects last decade through the program, PennFuture said. That guaranteed $449 million in energy savings projects with $379 million invested by energy saving firms.

PennFuture will request a 45-day extension for the public comment period on the changes so that people will have time to digest DSG's evaluation if the right-to-know request is honored, George Jugovic Jr, senior attorney for

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Electric Transmission Texas to balance grid with ABB gear

ABB won an order worth over $50 million for four static VAR (volt ampere reactive) compensators (SVCs) at two sites run by Electric Transmission Texas, Aftab Kahn, VP for ABB's grid systems business, told us yesterday from his office in Raleigh, NC. The project, to be completed by next year, is part of Texas' competitive renewable energy zones project that aims to boost the contribution of renewable energy by up to 18 GW in that state, Kahn said.

ABB's SVCs address voltage and frequency stability issues, helping the transmission system run more smoothly, he added.

"Texas is trying to integrate a lot of wind generation in more remote areas and bring it to load centers," Kahn said. "That can displace voltage support obtained from local power plants. Ideally, generation is closer to the load, but when it's not, SVCs can provide the needed voltage support."

SVCs are fenced-in sets of reactors, capacitors, "thyristor" valves and controllers. They resemble a substation but function to add or remove reactive power as needed. ABB considers SVCs to be part of the smart grid since "you have high-power semiconductors that allow doing innovative things for the grid and a fast response on the network," he added.

[Comments]

White House initiative sets out to tackle cybersecurity threats to grid

The federal government yesterday launched a new initiative to improve the electric grid's defenses against cyber threats. The White House initiative, "Electric Sector Cybersecurity Risk Management Maturity" project will be led by DOE in collaboration with the Department of Homeland Security.

The initiative will combine the insight of private-industry and public-sector experts to create a more comprehensive and consistent approach to cybersecurity.

"This initiative is another important step forward in improving the security of the nation's energy infrastructure and ensuring that the country's electrical systems remain secure, reliable and resilient," said Energy Secretary Steven Chu. "Establishing a comprehensive cybersecurity approach will give utility companies and grid operators another important tool to improve the grid's ability to respond to cybersecurity risks."

The effort will develop a "maturity model" that lets utility firms and grid operators measure their current capabilities and analyze gas in their cyber defenses. Maturity models are widely used in the private sector to improve performance.

Officials from DOE, the White House and DHS met with over two dozen leaders from the electric sector to launch the initiative and DOE plans to host a series of workshops with the private sector to draft a maturity model -- a tool for guiding the development of the effort and measuring its success.

"This effort will be focused on performance-based strategies and concrete steps to measure progress of cybersecurity in the electric sector," said White House Cybersecurity Coordinator Howard Schmidt. "It is important to understand the sector's strengths and remaining gaps across the grid to inform investment planning and research and development -- and enhance our public-private partnership efforts."

[Comments]

AEP to buy BlueStar Energy as Ohio prepares to deregulate generation

AEP is buying BlueStar Energy Holdings and its subsidiary power retail operation on undisclosed terms, bringing the Chicago-based retailer's 21,000 customers under AEP control, the utility told the press yesterday. The sale will close by the end of March, pending FERC approval, AEP said.

BlueStar serves retail customers in Illinois, Ohio and other deregulated markets, AEP said. It performs DR and energy efficiency functions, too, it added.

Though BlueStar will stay based in Chicago, its Ohio presence attracted AEP, the utility said. That state plans to deregulate generation and recent moves by AEP to consolidate its subsidiaries have prepared it to operate in that market.

AEP will merge Columbus Southern Power and Ohio Power under the utility's electric security plan (ESP), a move approved by the Ohio PUC. Year-ahead competitive auctions between June 2015 and May 2016 will set market-based rates in which energy suppliers will bid to provide power to AEP customers, the agreement said.

Customers will pay 2.27¢/KWH in 2012, 2.33¢/KWH in 2013 and 2.41¢/KWH in 2014. Customers pay a 2.1¢/

Gas futures fall 11.6¢, cross $3 mark with little chance for growth

NYMEX February natural gas futures moved sharply lower Thursday after EIA's storage report was released, analyst Jackson Mueller reported. The front month closed down 11.6¢ to $2.98/MMBTU after EIA reported a 76 BCF withdrawal.

That draw was slightly below consensus estimates and added to the year-on-year and five-year-average storage surplus. Gas in storage is now 356 BCF above last year's level and 458 BCF above the five-year average.

Gas is bearish and most signs continue to point to lower prices in 2012, Mueller reminded. Near month futures prices dropped 31% in 2011, on top of a decline of 20% in 2010.

The near-month gas futures contract ended the year trading in the $2/MMBTU range, its lowest level since mid 2009. The last time gas was below $3/MMBTU in December was in 2001. The lowest price of 2011 was made on the last trading day of the year, or in the middle of the winter heating season, Mueller noted.

[Comments]

KWH base rate now but the gradual increases "allow for a smooth transition to market-based pricing in 2015," the Ohio PUC told the press last month.

"Adding the dynamic, competitive culture and expertise of BlueStar to our team will give us a strong platform on which to grow our retail energy business and hedge the output of our soon-to-be unregulated Ohio generation," AEP CEO Nicholas Akins said in prepared remarks. "The retail customer acquisition and demand-side management expertise at BlueStar, including its proprietary information systems, will enhance our already successful wholesale business and diversify the product offerings available as we expand our retail customer base."

[Comments]

NEMA's Goodman gives marketer view on feds gas price report

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If you're not happy, pick up the phone and I can guarantee you there are better prices than are being quoted in these statistics," said Goodman.

Meanwhile, the BLS report listed regulated power prices in Atlanta far above the dramatically declining prices in states like Texas where competitive electricity markets resemble Georgia's gas market. The report showed Atlanta's regulated power prices, while close to the national average, were 20-50% higher than competitive power prices reported recently elsewhere.

"Consumers nationwide are potentially losing billions of dollars in savings because the century-old utility cost-plus system of supplying natural gas and electricity has yet to be truly opened up for competitive pricing with fully transparent utility portions of energy bills to consumers," Goodman said.

"Many states around the country are starting inquiries into how to fully unbundle utility distribution rates so that consumers can really shop for the lowest prices or most value-added services that are customized to meet their individual needs."

[Comments]

PennFuture explains how state government derailed efficiency program

From page two

PennFuture, told the press. The original public comment period is scheduled to end Jan 18 -- but it will take at most five days to rule on the right-to-know request and statutory exceptions could delay deliverance of the targeted documents by 30 business days, he said.

"We will be submitting comments but it's in the agency's interest for those comments to be informed," Jugovic said, adding the DSG "did not include the context in which the agency is proposing these changes."

Problems explained

PennFuture's initial review of DSG's proposals highlighted several changes that could hinder the program, Simeone said. For example, DSG suggested eliminating a prequalified list of electric service firms that proved they had the required technical and managerial expertise to honor the long-term contracts, she said.

Instead, DSG posited contracting on an as-needed basis would improve the program, she noted.

Alterations to the procurement process could deter contractors from bidding on projects, Simeone warned. Though admitting PennFuture's interpretation was made on limited information, Simeone said the group believes DSG wants state agency employees to perform audits that would then be included in RFPs.

However, most contractors likely would prefer to do the audits to better understand the specific building and the possible opportunities at that location before committing, she said.

Some of the requested changes to financial reporting might run afoul of new SEC regulations imposed by the Dodd-Frank Act, Simeone said. "Energy performance contracts are not rocket science," she added. "Pennsylvania had a very successful program based on tried and true methods."

[Comments]

Tell us what you think. We want to hear from you. Send your comments, complaints, news alerts and releases, annonymous tips plus your suggestions or questions about this issue of *Restructuring Today* to news@restructuringtoday.com.

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