Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

Wednesday, June 20, 2012

NEM, Skipping Stone survey marketers for insights, trends

GOODMAN: Retail energy helps drive US recovery

The NEM 2012 Retail Energy Marketer Trends Report found that over 75% of the firms surveyed plan to add jobs this year and many plan to expand into new markets. "The survey results confirm that the emerging retail energy industry is driving growth and recovery in the US economy," said NEM President Craig Goodman.

"Energy competition is benefiting consumers with lower prices and varied product offerings. Retail energy marketers are also creating jobs and making investments to serve consumers in markets across the country."

Skipping Stone did the survey, gathering responses from about a third of the active retail electric and natural gas marketers. The results were interesting and informative, but not statistically valid from a pure market research standards standpoint, said the report.

Some 53% of the firms surveyed plan to expand their product and service offerings and another 53% plan to expand into new markets. A quarter of the respondents said they plan to make an acquisition this year and none said they planned to sell their firm.

The most commonly reported challenge to growth was competitive margins, closely followed by access to capital, state regulatory proceedings and market maturity.

A majority of marketers offer both power and gas but there were still a number who only offer one or the other. The top answer on product expansion plans was to start offering both power and gas, so the number of firms offering just one commodity is shrinking.

Beyond core commodity products, "energy services" was the most commonly mentioned area planned for expansion.

Demand response, bundled with the commodity, is not a strategic initiative for a majority of retailers since many believe the market among their competitors is two years or more in the future. The few marketers that do offer DR reportedly have the bulk of their business in PJM and ERCOT.

Among mass market retailers, over 25% do not offer one-year

Continued on page two

Study reveals huge potential cost savings with growth in solar

Pat Wood joins luminaries supporting Texas solar

The Solar Energy Industries Assn and the Texas Clean Energy Coalition believe solar is a good fit for the capacity shortage now projected in ERCOT -- and they released a report yesterday showing how more of the resource would influence the market.

The two lobbies got the Brattle Group to look at how 1,000 MWs, 2,500 MWs and 5,000 MWs of solar photovoltaic panels would have impacted the wholesale market in 2011. Money saved could have been between $167.9 million and $520.3 million, it reported.

Former chairman of the Texas PUC and FERC Pat Wood called solar a natural fit for Texas' capacity issues since solar output peaks when demand is highest.

"Texas needs more on-peak capacity," Wood said in prepared remarks. "Solar delivers on peak. It doesn't use water and it doesn't create any smog pollution. It is increasingly affordable, competing favorably with other peak-of-the-day resources."

The report only looked at how various photovoltaic roll-outs would have impacted the wholesale prices, without taking into account the capital costs of building that much solar, noted its author and Brattle Principal Jurgen Weiss on a conference call yesterday.

The price cuts were from PV decreasing demand and saving fuel plus cutting operating and maintenance costs of the power plants that would not be dispatched. Solar is a low-operating-cost resource, the report added.

The report did not delve into other issues that could push prices up with higher demand such as changing fuel costs, transmission congestion or power plant outages, said co-author Onur Aydin.

The higher the solar build-out, the more the overall wholesale prices are impacted, but the value/MWH of solar shrinks as more of the technology pushes more economical fossil fuel plants out of the market, said the report. Rolling out just 1,000 MWs could save consumers about $281/MWH of solar produced while 5,000 MWs would save them just $155/MWH.

One of the tricky issues around cost estimates in the US is that many of them already have subsidies for solar power embedded into them, whether they are federal or state, said Weiss.

Are subsidies still needed?

Weiss is German and in his home country, they offer a feed-in tariff for solar panels that is reportedly below $200/MWH, under the lower end of the expected benefits. "Those feed-in tariffs suggest that the unsubsidized cost of PV is now at least broadly in the ball park of the benefits that we calculate," he added.

"It's not per se clear that you need tremendous subsidies to bring PV to the market."

Texas is very unlikely to adopt anything along the lines of California's solar subsidies and is generally wary of those kinds of policies. That is part of the reason that SEIA decided to focus its study on the operational and technical aspects of rolling out the market, said SEIA VP for State Affairs Carrie Cullen Hitt on the conference call.

The renewables lobbies wanted to prove that solar was a cost-effective answer to the resource adequacy issue in Texas and they wanted to make sure that policymakers weigh it as an option going forward.

"We would suggest that they examine some of the benefits that solar has to offer," said Hitt, "and make sure that those sorts of things are included in whatever policy design they have. This isn't necessarily incentives per se, but things such as less water use, the environmental benefits, the fact that solar can produce at peak times and … that solar can be a distributed generation resource."

[Comments]

NEM, Skipping Stone survey marketers for insights, trends

From page one

terms to customers and that group has overwhelmingly, at 87%, avoided offering time-of-use rates to their customers.

Of the C&I marketers surveyed, only 60% said they offer base load with swing products to their customers and the most popular commodity product remained a full-requirement offering.

Most retailers, 70%, said they are investing in technology with sales management and operations/settlement systems listed as the most widely planned upgrades to buy.

More than 30% of the retailer listed multiple market billing systems as their greatest technology challenge to overcome, said the report.

[Comments]

ICF Energy predicts coal power will stay steady through 2020

ICF Energy expects over 70 GWs of coal-fired generation to retire in the next four years, while some 400 GWs will have to install upgrades to meet new environmental standards, it said in its Integrated Energy Outlook released yesterday. The consulting firm expects coal generation to stay steady through 2020, despite the capacity retirements.

The retirement forecast was based on EPA emissions rules and the low price of natural gas, factors that combined will bring some permanent demand destruction for coal in the electric industry, said the firm.

EPA proposed a new rule under its greenhouse gas regulations to ban construction of traditional coal plants going forward, said ICF, but the firm believes that will have no impact on the capacity build-out going forward as the industry was not building new coal plants anyway.

Gas prices plunged $2/MMBTU this winter due to mild weather but ICF does not believe those prices are sustainable. Producers have already shifted drilling wells to more profitable fuels and prices have started to firm.

Next winter is likely to be much colder and as supply tightens and demand returns, prices will rise, the firm predicted. ICF expects gas prices to hover in the $5-6/MMBTU range in the long term.

[Comments]

PJM explains why it did not give projects to Primary Power

PJM told FERC that it should move forward, on schedule, with its consideration of the cost allocation of the latest regional transmission expansion plan (RTEP), despite a protest from Primary Power. The independent transmission producer filed a protest against the RTEP and a separate complaint against the RTO for allegedly awarding projects it had planned to two incumbent utilities.

PJM argued that its decision to put the utilities' projects into the RTEP was based on cost alone. They were cheaper options than Primary Power because they used existing substations rather than building more infrastructure.

The outcomes of the cost allocation for the latest RTEP will be unaffected by the outcome of Primary Power's complaint on the decision to give the static VAR compensators (SVCs) to other firms to build, said the PJM filing.

PJM analyzed the alternatives to Primary Power's SVCs and found they can be built at a substantially lower cost than those proposed by the firm, without the need to disturb new sites, without the need to get new state permits and while fixing the same issues on the grid.

Primary Power's complaint provided a complete and sufficient forum to resolve the claim that the two utilities who won the right to build the SVCs took its idea and tweaked it slightly to invoke a backdoor right of first refusal.

Just because PJM's RTEP cost allocation finding includes the two projects at issue in the complaint does not mean that Primary Power's protest should be completed and the cost allocation process held up until its complaint is dealt with, said PJM.

[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.

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

Restructuring Today (ISSN 1522-7324) is published 247 times a year on business days by **GHI LLC** at 4908 Hornbeam Drive, Rockville is published 247 times per year on business days by Modern Markets Intelligence Inc. for the publication's owner, GHI LLC. Both firms are located at 4908 Hornbeam Drive, Rockville, MD 20853-1475 USA, 888-980-4446 (toll-free) or +1-301-769-6903 . Fax is 301-769-6917. The standard annual subscription rate is $687 in US funds (plus 6% sales tax in the District of Columbia and Maryland). Significant discount rates for bulk subscriptions are available including highly affordable and convenient corporate-wide accounts. Sam Spencer, publisher; James Downing, editor; Season Crawford, associate publisher, vice president of marketing and customer service director; Liz Yap, production director.

support@restructuringtoday.com
www.restructuringtoday.com