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NEM explains potential risks in changing New York markets

The New York PSC will receive comments today on its retail market investigation (RT, Oct-19), and *Restructuring Today* obtained a draft of the National Energy Marketers (NEM) comments from the group's President Craig Goodman -- urging the commission not to undo its own great success in creating retail energy markets.

The PSC asked, among other things, for input on whether retailers saved customers money compared to utility rates -- and it started the investigation after its staff found a wide variation in what retailers were charging.

New York is a large market that has been very successful, thus NEM's members have been working on today's comments for months, Goodman told us. NEM complemented the PSC on 20 years of "outstanding public service" and its comprehensive public policy analyses and development that created one of the "most intensely competitive retail energy markets in the United States," said the draft version we obtained.

"Under no circumstances should the commission abandon twenty years of exemplary public policies and analyses as well as the enormous public benefits that have been derived by incenting private capital to displace captive ratepayer-guaranteed monopoly market power," NEM said.

Retailers served 2.6 million customers last year and just 256 of them had complaints that were looked at carefully by the PSC, NEM added. The PSC's regulations on retail competition have been taken up as best practices for other markets around the country by NEM, specifically its purchase of receivables program and its customer referral programs.

The market grew to 1 million natural gas shoppers and nearly 1.6 million

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Pennsylvania OKs default service plans for Duquesne, PPL

The Pennsylvania PUC approved default service plans for Duquesne Light and PPL Electric Utilities at its regular meeting yesterday. Both plans run from June 1 of this year through May 31, 2015 and both include retail market enhancements designed to boost shopping in the utility territories.

The two plans were approved by the entire commission, but Commissioner Wayne Gardner filed partial dissents, arguing that the two could have used an auction system for their retail opt-in programs. The majority of the commission decided to give PPL and Duquesne the same aggregation systems that were set up for PECO and FirstEnergy.

Neither of the systems has been tested in practice yet so it is impossible to know which would be more effective, Gardner wrote. The auctions might have higher administrative costs, but they could secure a price more favorable than the 5% off the default service price that the aggregation systems offered, he added.

Duquesne in particular has a unique default service plan among those that have been approved so far, Gardner said. The price to compare (PTC) will only change twice/year so a 12-month, opt-in term could have worked for it.

PPL's PTC will adjust on a quarterly basis and it will procure no added block energy purchases. The Allentown-based utility will offer a retail opt-in option starting in July for customers based on 5% off the PTC plus a $50 cash bonus, followed by an

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Texas hears from William Hogan on scarcity price curve idea

The Texas PUC wants to examine a proposal to set up an operating reserves demand curve to create scarcity pricing based on how much reserves are available, commissioners said at a special meeting yesterday.

GDF Suez hired Harvard Professor William Hogan to sketch out a proposal to establish a curve based on the value of lost load times and the loss of load probability, which result in an adder to ERCOT's clearing price (RT, Jan-23). That means essentially when reserves are at what they are supposed to be, a small adder to the energy price would be applied. But if ERCOT were walking a tightrope to balance supply and demand, prices would shoot up to scarcity levels as reserves fell below a specific point.

Exactly how the change would impact the resource adequacy issue in Texas is unclear and modeling Hogan's proposal in a back-cast such as ERCOT did with other proposals is reportedly not possible.

"There are many reasons for adopting better scarcity pricing and one of them is the missing money problem in the resource adequacy problem," said Hogan at the meeting. "But it's not the only reason and it's not impossible that it would also make a very large dent in the resource adequacy problem."

ERCOT will see prices in the normal $40-60/MWH range now and then when scarcity conditions hit, they will suddenly shoot up to the offer cap, its Director of Wholesale Market Operations John Dumas said at the meeting. The curve would spread that jump out over longer periods, thus cutting back on volatility in the marketplace and giving time for demand to react.

The curve would also turn scarcity pricing into an administrative mechanism rather than having it rely on bidding alone, Hogan said. Having scarcity prices set by bids makes it very difficult to tell whether a generator is attempting economic withholding or prices are shooting up because the lights could go out, he added.

Basing scarcity pricing on the curve rather than bids could give the prices more political stability, which would boost investment as developers and financers would count on the prices three years down the road when new plants actually go online, said Hogan.

ERCOT will be able to figure out what the adder would have been in sample months from the last two years, but the offer curve would change generator behavior, so the look-back will not be perfect, said Dumas. Also, the curve would eliminate the current price floors that are applied to the energy market whenever reserves are deployed and it could not find out what the energy prices would have been absent those rules.

Just because it is impossible to know how the rule change would impact resource adequacy, that does not mean the PUC should put it on a backburner and move forward on other items, said Hogan.

"I think it's a big mistake to defer fixing the fundamentals so that we can put on the band aids to compensate for the fact that we didn't fix the fundamentals," he added. "I think the first thing to do is to fix the fundamentals -- and the fundamental problem with scarcity pricing is a real problem -- and doing a better job … would be helpful in many, many things."

Commissioners respond

If the PUC approves the scarcity pricing mechanism, it will be important that it is designed well and stays in place going forward, said Chairman Donna Nelson. "It is critically important that we have the will to let it work as intended so that we don't end up with a system where we fear scarcity prices: scarcity events happen, the prices kick in, people complain about it because they haven't hedged correctly and then we go back and revaluate what we've done. That, in my opinion, would result in less investment."

Nelson and Commissioner Kenneth Anderson asked ERCOT to look at what the adders would have been in past months and get that analysis back to the commission. Once that analysis is in, Nelson said parties would have a chance to comment on it. The exact timing was not determined, but it will be looked at quickly since ERCOT's offer cap is set to rise this summer and the proposal could help make it more effective.

[Comments]

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eight-month fixed price offer by participating retailers.

PPL will set a continuing standard-offer referral program this August for customers that opt into a 7% price discount to the current PTC for 12 months that will be offered by participating retailers.

The Pittsburgh-based Duquesne will have a procurement strategy meant to ensure the provision of default service on a least-cost basis. It will acquire default suppliers for residential and lighting customers through 12-month full requirements contracts from third-party suppliers through competitive requests for proposals.

Duquesne's retail opt-in program mirrors PPL's, as does its continuing standard offer referral program.

Commissioner Pamela Witmer agrees with the decision not to approve a surcharge on default service customers proposed by the Retail Energy Supply Assn, she wrote, to eliminate their subsidization by shoppers. She was pleased with the group's creativity, she added.

Witmer believes the PTC should properly reflect current market conditions and not include other charges that artificially inflate or depress the price signal, she wrote. RESA's proposal could have merit but needs a fuller vetting, possibly in the PUC's ongoing Retail Markets Investigation, Witmer said.

[Comments]

Waxman, Whitehouse launch new climate change taskforce

Rep Henry Waxman, D-Calif, and Sen Sheldon Whitehouse, D-RI, yesterday launched the Bicameral Task Force on Climate Change to deal with the issue after President Barack Obama brought it up in his inauguration speech. The taskforce will be co-chaired by those two.

Waxman is the ranking member of the House Energy & Commerce Committee and got a cap-and-trade bill through the House when he was in the majority in 2009. Whitehouse is the chairman of the Subcommittee on Oversight for the Environment & Public Works Committee, which failed in its effort to craft a parallel bill that year.

"Congress and the public need to understand that climate change impacts are turning out worse than expected and our window to act is closing," Waxman said in prepared remarks. "This threat is not waiting until we are ready to deal with it."

The first action of the taskforce was to send a letter to President Obama yesterday urging him to act on the words from his speech. Specifically they asked him to lay out the steps federal agencies could take to cut emissions of heat-trapping gases by 17% below 2005 levels by 2020. EPA proposed a greenhouse gas rule on new power plants already, and could act on existing sources.

The two lawmakers asked the president to accelerate federal investments in clean energy technology and develop a strategy to protect the most vulnerable parts of the country from global warming.

"Carbon pollution is wreaking havoc on our atmosphere and on our oceans and it's time to bring all hands on deck as we seek to meet that challenge," Whitehouse said in a statement. "We intend this new group to bring the attention and energy to the issue necessary to get something done."

The two plan to convene meetings in the coming weeks and months to seek relevant information and release periodic reports, memoranda and correspondence to advance the group's goal of boosting awareness and developing policy responses to climate change.

[Comments]

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power shoppers, with numerous suppliers competing for their business. New York has achieved the goals the PSC laid out when it embraced retail competition, NEM added.

"At this stage of market development, it is axiomatic that all consumers should have the right to shop for the energy products that they personally find to be of value," NEM wrote. "Likewise, all consumers are entitled to be marketed to and served under a uniform set of behavioral marketing standards for which there are clear consequences for violations and that are subject to proper scrutiny and oversight."

Stop fraud, save access

The PSC is considering whether to limit low-income consumers' access to the market, based on what NEM called "unsubstantiated implications" that some retailers are coming into the New York market to serve customers on government assistance with prices above what the utility would charge them. NEM unequivocally supports and extends its resources to any regulator to take immediate and corrective enforcement actions to prevent such conduct.

"NEM urges the commission not to dispose of, displace or otherwise devalue its longstanding and extremely successful retail energy market structure, policies and market standards based on limited anecdotal demographic observations of consumer behavior that have never been vetted or analyzed or enforcement actions initiated in an otherwise intensely competitive marketplace," the lobby wrote in the draft comments.

Comparisons between utility rates and retailer rates are very hard to do well since default service rates change often plus shopping customers have such a vast array of products to choose among.

"Utility delivery rates have yet to adequately unbundle the full retail costs of providing commodity-related services and continue to cross-subsidize the utilities' provision of default service," NEM added.

[Comments]

1 story in 20 seconds

Gas futures fall on EIA gas-pull report: NYMEX February natural gas futures ended solidly lower yesterday on profit-taking after EIA's storage report came out in the morning, analyst Jackson Mueller reported. The contract dropped 10.8¢ to close at $3.446/MMBTU, despite a storage withdrawal that was slightly above expectations. Initial efforts to hold the market to the upside based on colder weather in key heat consuming regions failed after EIA's report. The storage report showed a net pull of 172 BCF -- a tick above most expectations and near historic figures. Storage stocks were at 2,996 BCF, above the five-year average of 2,676 BCF.

[Comments]

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