Restructuring Today

CHRONICLING EFFORTS TO OPEN COMPETITIVE ENERGY MARKETS

Monday, December 16, 2013

NEM, RESA argue for Pennsylvania gas utilities to exit SOLR

Retail market advocates in comments filed last week told the Pennsylvania PUC that natural gas utilities should be removed from the "supplier of last resort" (SOLR) role. But the Energy Assn of Pennsylvania which represents the utilities argued that, unlike power, gas lacks a PJM-type entity responsible for the overall reliability of the gas system.

Utilities forecast the winter peak and ensure they have enough gas to meet it and some variation of that role needs to be in place regardless of the regulatory system, the association added.

The PUC this fall launched a probe into steps it could take to boost the retail gas market (RT, Sept-13). Less than 13% of customers shop for gas, which the commission called "dismal."

Pennsylvania is sitting atop the Marcellus Shale, so the cheap supplies it provides could significantly boost competition while moving the utilities out of the SOLR function. That would let them focus on their core competency of infrastructure development, said the National Energy Marketers Assn (NEM).

The commonwealth does not have gas available to a large portion of its residential consumers so the utilities could refocus their efforts on expanding service.

Unlike the power retail investigation, which was ultimately blocked by state law and pushback from the legislature – the gas laws are more amenable to other entities getting into the SOLR role, NEM said.

The law specifically said utilities can petition to get out of the SOLR role and it lets any party petition the PUC to start offering SOLR except for customers that have not shopped, noted the Energy Assn of Pennsylvania.

Keeping utilities in that role gives them serious competitive advantages such as the lack of any customer acquisition costs and the perception that the role gives to consumers about the relative values of different firms' offerings, said NEM.

The Retail Energy Supply Assn (RESA) believes the ideal end state would be to for utilities to exit the SOLR function. But the commission should study the laws to see whether it can do that on its own and if not, it needs to develop a consensus among the parties as to how that end state might be accomplished, the group added.

NEM and RESA want, in the interim, for prices to be based as closely to the market as possible because any deviations from it can significantly impede retail competition, they noted separately.

The Office of Consumers Advocate sees the proceeding as well timed and it believes improvements to the

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ITC, Entergy cancel transmission sale after Mississippi-permit denial

ITC and Entergy cancelled a deal where ITC was to buy Entergy's transmission system – announcing the cancellation after Mississippi denied permission for the deal (RT, Dec-11). The two firms announced in separate releases Friday that they will make appropriate filings to terminate the regulatory proceedings in outstanding joint applications.

Entergy's transmission system consists of about 15,400 miles of interconnected lines at 69 KVs and above and associated substations. The firm plans to spend $1.7 billion in upgrades over the next two years and to soon turn control of it over to MISO, which it estimated would save $1.4 billion.

"I am truly sorry that customers in this region will not realize the benefits that this transaction would have brought and that they so deserve," ITC CEO Joseph Welch said in prepared remarks. "We appreciate the support we received from the Federal Energy Regulatory Commission and various stakeholders in

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Texas PUC staff memo recommends no change to retail market rules

The Texas PUC's staff filed a memo last week recommending that the commission not change the retail market rules in light of the higher ERCOT price cap. The PUC voted to raise the system-wide offer cap to $9,000/MWH starting in the summer of 2015.

The cap is now $5,000/MWH and next summer will step up to $7,000/MWH. Before the commission started looking at resource adequacy, the cap was at $3,000/MWH.

Given the higher prices and the resulting exposure risk, the PUC launched a probe into potential changes for retail electric provider (REP) rules to mitigate collateral requirements and credit exposure. Commenting parties suggested the existing rules for REPs and ERCOT protocols could handle the price boosts without any major disruptions, the staff noted in a memo filed last week.

ERCOT is shortening the real-time market settlement period to five days starting this summer and that is expected to cut collateral requirements and the risk of retailers going out of business and triggering uplift costs for remaining participants.

The current REP certification rules are sufficient to ensure that only financially sound firms can run in the retail market, comment filers said, and ERCOT credit and collateral requirements are good enough to address wholesale risks, they added.

Comment filers also believed the POLR rules can handle the higher prices because it assigns more responsibility to the bigger REPs and the prices offered to customers from a POLR event will not be based on the peak levels because they will have most likely passed when a transfer occurs.

The PUC staff recommended that the commission watch the market to see whether any anomalies occur to the higher prices. The commission should also watch ERCOT's efforts to shorten real-time market settlement periods to ensure they keep pace, the staff said.

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retail gas market can be made – but it questioned the value of shopping for small consumers. The office sees no value in moving the utilities out of the SOLR role as the firms would still retain significant costs and operational responsibilities that consumers would have to pay for.

The 12% shopping rate indicates the market has room for improvement but the consumers advocate argued that it alone cannot explain the current state of affairs for residential consumers. The market is much smaller than that for power, with just 2.6 million customers compared to just under 5 million for power.

The ability to compete on product differentiation is much more limited in gas as retailers cannot offer a different mix of supply than the utility with natural gas molecules being the same, said the advocate. Price competition is possible but the utilities are buying from the same, mature and low-priced markets now as retailers are, said the office.

Natural gas use tends to have more peaks than power use, which means consumers are unlikely to pay attention to the market offerings outside of the heating season, the office added. Studies on gas shopping in other states, including work at the National Regulatory Research Institute, found benefits for small consumers were unclear.

Some save money, but others end up paying more than they would have on utility service, the consumer advocate noted.

[Comments]

3 stories in 90 seconds

Gas futures fall on news of warmth: NYMEX January natural-gas futures ticked lower in profit taking after climbing to overbought levels on cold weather and large storage pulls, analyst Jackson Mueller reported. The contract fell 5.8¢ to close at $4.351/MMBTU after climbing to a better-than-two-year high Thursday as frigid temperatures drove demand higher. A warming trend in near-term forecasts undermined support Friday. The National Weather Service expects average temperatures in parts of the north but most of the country will see above-average temperatures in the next six to 10 days.

Integrys creates title, appoints Borgard to it: Integrys Energy Group announced Friday the appointment of Lawrence Borgard to the newly created position of president and COO for the holding firm, effective Jan 1. Borgard will expand on his existing responsibilities for the firm's regulated utility business by assuming responsibility for the non-regulated business and a number of administrative and shared services groups. Borgard will keep reporting directly to Integrys' CEO and Chairman Charles Schrock.

California grants cash for energy R&D: The California Energy Commission approved $1.1 million in research grants through its Energy Innovations Small Grants Program, it said last week. The projects receive grants up to $95,000 each to improve the quality of life in California and test new ways to help environmentally safe, reliable and affordable energy services and products reach the marketplace. Over the program's history, some $34 million in awards from the commission attracted another $1.8 billion in follow-on investment. The specific awards last week ranged from clean fuel cars to efficiency and solar power.

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the Entergy region who recognized and understood the benefits of the proposed transaction and the value it would create for customers."

ITC created a standalone business plan as well as pursuing the deal and that will position it to deliver benefits to customers and shareholders going forward, he added.

The transmission firm completed significant capital projects in Iowa, Kansas, Michigan and Oklahoma. ITC made operational and reliability improvements in its existing footprint and advanced multi-value projects in MISO, Welch said.

"While we strongly believe that the transaction would be in the best interest of our customers and all stakeholders, it is clear we don't have the necessary regulatory support to close the transaction," Entergy CEO Leo Denault said in prepared remarks. "We sincerely thank all of our regulators, their staffs and participating parties for their hard work and diligent review of the transaction and we look forward to working with them in the near future on how best to maintain and expand the transmission system going forward."

Running the grid will be a significant part of the growth opportunities for Entergy's utility businesses going forward, he added.

The utility saw large investments from industrial firms in its footprint that it expects to translate into 2-2.25% compound demand growth in the next three years, or even higher if added opportunities come to fruition.

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