Energy Choice Matters

January 20, 2010

BGE Revises Gas Discount Rate, Removes Operational Costs, Reduces Risk Factor

Baltimore Gas and Electric submitted a revised Maryland natural gas Purchase of Receivables compliance filing that mostly tracks its recent revisions to its electric POR proposal, with the main difference being the absence of development costs in the gas discount rate, since BGE has previously received approval for collection of such charges through the Gas Choice and Reliability Charge.

Under the new proposal, the residential gas discount rate would be 2.38%, and the non-residential discount rate would be 0.85%. Components are listed below:

	Residential	**Non-Residential**
Uncollectible Expense	2.13%	0.71%
Operational Cost	0.00%	0.00%
Risk Factor	0.25%	0.14%
Total	**2.38%**	**0.85%**

For the first year, BGE proposed not including any costs in the operational cost component. BGE will monitor the impact of purchasing supplier receivables and other RM35 enhancements on its operating costs, and will include any incremental RM35 costs in future resets of the discount rate.

BGE has reduced its risk component to equal 20% of the gas uncollectible expense component, not to exceed 0.25%. A risk component is justified, BGE said, since BGE will be paying suppliers on a daily basis five days after the due date. However, BGE only collects 74.7% of its residential customer billings in the first 30 days after billing. "Additionally, the Risk Component helps mitigate any unrecovered cash working capital lag that may arise if customer payment patterns are slower than expected," BGE said.

Pa. PUC Seeks Comments on Meaning of Prudent Mix, Least Cost

The Pennsylvania PUC posted language and questions for stakeholders regarding its proposal to update its default service regulations to reflect the requirements of Act 129 (L-2009-2095604, Matters, 1/15/2010).

Consistent with Act 129, the PUC's proposal would delete the old standard that default service must be designed to acquire electric generation supplies at prevailing market prices, and instead require the use of a "prudent mix" of (a) spot market purchases; (b) short-term contracts; and (c) long-term (5-20 year) contracts.

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Integrys Energy Group to Keep Selected Parts of Retail Supply Business

Integrys Energy Group announced this morning that it will retain a "selected" portion of its competitive retail natural gas and electric books, changing course from its earlier indication that it would either divest or unwind all of the units under Integrys Energy Services.

Integrys Energy Group said that, with a restructuring of the retail supply unit to reduce its scale and risk profile, retention of the unit is now the, "most attractive outcome for our investors."

Various changes at Integrys Energy Services have resulted in, "a lower risk profile than an integrated wholesale and retail business, and ...

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PSC Orders KeySpan to Report on Delay in Providing Option of Monthly Balanced Service

The New York PSC directed KeySpan Long Island to show the customer and/or marketer impact of its delay in giving existing daily balanced customers the option of switching to monthly balanced service on an interim basis while a new daily balancing system is being developed and put into place (06-G-1185 et. al.).

As only reported in Matters, the PSC approved various changes to balancing at both KeySpan LDCs in connection with a new gas balancing system which is in development (Only in Matters, 6/24/09). As part of the Commission's June order, KEDLI was to provide by August 1, 2009, existing daily balanced customers the option of switching to monthly balanced service on an interim basis while the new daily balanced system is being implemented.

KEDLI, however, said that monthly balancing cannot be implemented for these customers until June 1, 2010, reporting that existing customer billing and data warehouse information systems do not support monthly balancing, and that these information systems requirements are needed to support the switching by current daily balancing customers.

Noting that KEDLI did not seek a good cause waiver of the Commission's original deadline, it required KEDLI to show the customer and/or marketer impact of this delay. KEDLI must also fully explain the reasons for its non-compliance and why the existing monthly balancing systems could not be converted for use in a timeframe that would comply with the June 2009 order. Furthermore, KEDLI must explain the remaining steps it must take to implement monthly balancing.

During the interim period, the existing KEDLI Daily Balancing Program will remain in effect. Under this rule, the Daily Imbalance Tolerance will remain at +/- 10% tolerance. No tolerance band tier changes will be incorporated until the new daily balancing system is placed into service. The daily cash-out price will be changed from use of the Incremental and/or Weighted Average Cost of Gas based prices to Transco Zone 6 NY mid-point pricing with appropriate incentives proportional to the percentage imbalance per the existing cash-out tier structure.

KeySpan New York did not file all of the required tariff amendments relating to daily balancing for the KEDNY tariff. However, the PSC noted that this does not currently present a problem, as daily balancing customers do not exist in the KEDNY service territory, and the new daily balancing system is not yet ready for implementation.

Reliant Expands Time of Use Offering

Reliant Energy has expanded the availability of its residential, advanced meter based time of use product from a pilot program to all customers with advanced meters in their homes, or about 800,000 customers. For the summer (April-October), the time of use product includes three tiers. For the winter months (November-March), the product includes two tiers.

Reliant Energy is also offering a weekly summary email to customers with advanced meters, another feature previously only available through a pilot. The weekly email provides an overview of weekly and daily usage, including a summary of usage and cost, an estimated monthly bill amount, and a comparison to the previous week's electricity use.

Reliant said that additional products such as a Web View and Home Energy Monitor will be available to customers with smart meters later this year, with a rollout most likely during the summer.

Current residential time of use rates are:

Houston Area (¢/kWh)
Winter months: November-March

Off peak hours:	
9 p.m.-6 a.m.	11.8¢
Standard hours:	
6 a.m.-9 a.m.	
6 p.m.-9 p.m.	13.6¢

Pricing tiers reproduced exactly as published by Reliant

Houston Area (¢/kWh)

Summer months: April-October

Off peak hours:	
midnight-noon	
8 p.m.-midnight	11.8¢
Standard hours:	
noon-4 p.m.	13.6¢
6 p.m.-8 p.m.	
Peak hours:	
4 p.m.-6 p.m.	15.8¢

North Texas (¢/kWh)

Winter months: November-March

Off peak hours:	
9 p.m.-6 a.m.	10.6¢
Standard hours:	
6 a.m.-9 a.m.	
6 p.m.-9 p.m.	12.5¢

Summer months: April-October

Off peak hours:	
midnight-noon	10.6¢
8 p.m.-noon	
Standard hours:	
noon-4 p.m.	12.5¢
6 p.m.-8 p.m.	
Peak hours:	
4 p.m.-6 p.m.	13.7¢

Ga. PSC Approves Program to Extend AGL Mains

The Georgia PSC has approved an additional phase of Atlanta Gas Light's Strategic Infrastructure Development and Enhancement Program (STRIDE) which will allow AGL to extend gas mains and expand natural gas service to additional customers within in its service territory who do not have access to the LDC system.

The program, grounded in economic development, was supported by marketers since, with no default commodity suppliers in the AGL market, any new delivery service customers will be acquired by one of the nine competitive suppliers in the market.

The PSC has not yet issued a written order, which will take a few days to draft.

The program reduces or eliminates the contribution in aid of construction for customers in parts of the service area where there are no gas mains, with such costs socialized through an extension of the sunset date for the recovery of STRIDE costs, with no monthly increase in distribution rates.

Scana Energy Marketing, which originally proposed the STRIDE mainline extension, noted that since 2006, AGL is only growing its customer base by about 5,000 to 7,000 customers per year due to prohibitive costs for customers to fund new mains.

Conectiv Energy Gross Margin Below Forecast by $40-45 Million

Pepco Holdings reported that, based on its preliminary unaudited year-end 2009 results of operations, the gross margin for Conectiv Energy will be between $225 and $230 million, which is $40-45 million lower than the guidance of $270 million given on October 30. The decline is attributed to:

- An anticipated energy marketing transaction that was forecast for December 2009 which did not occur (approximately $20 million);
- Weaker than expected energy markets and lower loads in the last two months of 2009 (approximately $13 million); and
- The gross margins on certain mark-to-market load contracts projected to be recorded in 2009 will be recorded in future periods over the terms of the contracts (approximately $10 million).

Pepco Holdings confirmed its gross margin guidance for Conectiv Energy of $340 million to $410 million for 2010 and $380 million to $480 million for 2011. These ranges incorporate the current forward energy market prices and volatilities, and include expected capacity margins of $225 million in 2010 and $195 million in 2011, and the impact of the Delta generating plant becoming operational in 2011.

FERC Confirms Curtailment Service Providers Are Not Public Utilities Absent Activities Outside of Demand Response

FERC confirmed, in granting EnergyConnect market-based rate authority, that curtailment service providers are not public utilities and do not require market based rate authority if their activities are limited to the provision of demand response services, and do not include sales of electric energy for resale (ER09-1307).

EnergyConnect said that it was unsure of whether it required market-based rate authority from FERC, and submitted an application in an abundance of caution. In its application, EnergyConnect said that, in addition to demand response, it may buy ancillary services from generation sources, including but not limited to balancing energy, for eventual resale in organized markets

Regarding such ancillary purchases, "EnergyConnect refers to a service that does not fall within the definition of demand response as set forth in the Commission's regulations to the extent that it would entail the injection of electric energy onto the grid and a sale of that energy for resale in wholesale electric markets," FERC said. "On this basis, EnergyConnect would be a public utility under section 201(e) of the FPA because its agreements to make sales of balancing energy for resale in the wholesale organized markets would constitute jurisdictional facilities under FPA section 201(b), the Commission held.

In contrast, "where an entity is only engaged in the provision of demand response services, and makes no sales of electric energy for resale, that entity would not own or operate facilities that are subject to the Commission's jurisdiction and would not be a public utility that is required to have a rate on file with the Commission," FERC said. "[W]e do not regard agreements to provide services from only demand response resources to be jurisdictional facilities because they involve agreements to reduce demand, i.e., agreements not to purchase electric energy under certain circumstances, rather than agreements to sell electric energy at wholesale. Such agreements are not jurisdictional facilities that cause a seller to be a public utility," FERC held.

FERC stressed that it retains jurisdiction over curtailment service providers even when such entities are not public utilities, through (among other avenues) required compliance with RTO tariffs, and as an "entity" under FPA section 222, governing market manipulation in connection with Commission-jurisdictional wholesale sales of electric energy.

ERCOT Says PRR 830 Made No Changes in Reactive Power Requirements

Responding to several consolidated appeals of Protocol Revision Request 830, ERCOT reiterated that, "[c]ontrary to the overheated claims in the nearly 200 pages of pleadings Appellants filed to initiate this docket, PRR 830 did not change any governing ERCOT technical standards."

While the several wind generation resources (WGRs) have argued that PRR 830 changed ERCOT's reactive power requirement to a static requirement versus one which varies with a generator's output, ERCOT cited Protocol Section 6.5.7.1 as always requiring generators to "have and maintain" the same level of reactive power capability regardless of output (Only in Matters, 12/23/09).

"The Appellants' inflammatory assertions that PRR 830 discriminates against them is wildly off the mark: PRR 830 is primarily designed to maintain what has always been a level playing field on which all generators, WGRs included, are expected to support the reliability of the ERCOT system; the only special treatment would be a finding that WGRs do not have to meet longstanding requirements," ERCOT said.

"Appellants essentially contend that generation resources powered by wind have less responsibility to maintain Reactive Power capability than generators powered by other renewable or conventional sources of energy. The Protocols have never made any such distinction, and Appellants point to no 'exemption' in the Protocols that would support such favoritism toward post-2004 WGRs," ERCOT added.

"Perhaps because of the weakness of their core argument regarding interpretation of the Protocols, Appellants avidly attack the professionalism and fairness of the ERCOT Board of Directors, their fellow stakeholders, and ERCOT staff. Certain Appellants outrageously claim that the Board denied them constitutional due process in its consideration of PRR 830 - despite the hours of discussion devoted to the issue, and the Board's complete openness to considering presentations and filings made by Appellants and their allies," ERCOT said.

An ALJ granted the appellants' unopposed motion to suspend the December 31, 2010 compliance deadline in PRR 830 on a day-to-day basis for the period of time between the November 17, 2009, ERCOT Board meeting at which PRR 830 was adopted through the date which a Commission order on the appeal becomes final.

Briefly:

PUCT Opens Shortage Pricing Docket

The PUCT has opened project 37897 for a proceeding relating to resource and reserve adequacy and shortage pricing.

PUCT Opens CREZ Remand Docket

The PUCT has docketed the remand of the Competitive Renewable Energy Zone order as docket 37902 (Matters, 1/18/10).

Md. PSC Approves Contingent Bidding for SOS

The Maryland PSC approved, as filed, the SOS working group's recommendation to allow contingency bidding in the individual utility SOS RFPs, starting with the solicitation to be conducted in April 2010 (Only in Matters, 12/23/09). Under the approved language, a bidder may submit Type II SOS bids contingent on the amount of Residential and Type I SOS bids it is awarded. Residential and Type I SOS bids will be firm and not subject to any contingency.

NiMo Files for Smart Meter Pilot

Niagara Mohawk has filed for approval for a 39,400 smart meter pilot in Syracuse, similar to its earlier, larger pilot that had been proposed and had been contingent on stimulus funds which it did not receive.

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Per the draft, the PUC will review default service plan applications to determine whether the plan includes prudent steps necessary to obtain "least cost" generation supply contracts on a long-term, short-term, and spot market basis, as Act 129 requires that generation purchases must be designed to ensure adequate and reliable service at the least cost to customers over time.

The PUC would update its regulations, which currently limit contracts to three years in length, to include the use of long-term contracts up to 20 years in length.

The Commission is also using the rulemaking to codify the provisions of House Bill 1530 of 2007, which authorizes electric distribution companies to offer negotiated rates to some very large industrial customers, subject to Commission review. Under the new draft regulations, the default service provider (DSP), in its sole discretion, may offer large customers with a peak demand of 15 megawatts or greater at one meter location in its service territory any negotiated rate for service at all of the customers' locations within the service territory for any duration agreed upon by the DSP and the customer.

House Bill 1530 also permits some electric distribution companies to construct or acquire an interest in an electric generation facilities for the purposes of serving very large industrial customers, subject to certain conditions.

Act 129 confirms that generation rates for residential and small business customers shall change no more frequently than quarterly.

Because several of the terms in Act 129 such as "prudent mix" and "least cost" are open to interpretation, the PUC issued 16 questions in connection with the rulemaking:

1. What is meant by "least cost to customers over time?"

2. What time frame should the Commission use when evaluating whether a DSP's procurement plan produces least cost to customers over time?

3. In order to comply with the requirement that the Commission ensure that default service is adequate and reliable, should the Commission's default service regulations

incorporate provisions to ensure the construction of needed generation capacity in Pennsylvania?

4. If the Commission should adopt a provision to ensure the construction of needed generation capacity, how should the default service regulations be revised?

5. Which approach to supply procurement - a managed portfolio approach or a full requirements approach - is more likely to produce the least cost to customers over time?

6. What is a "prudent mix" of spot, long-term, and short-term contracts?

7. Does a "prudent mix" mean that the contracts are diversified and accumulated over time?

8. Should there be qualified parameters on the prudent mix? For instance, should the regulations preclude a DSP from entering into all of its long-term contracts in one year?

9. Should the DSP be restricted to entering into a certain percentage of contracts per year?

10. Should there be a requirement that on a total-DSP basis, the "prudent mix" means that some quantity of the total-DSP default service load must be served through spot market purchases, some quantity must be served through short-term contracts, and some quantity must be served through long-term contracts?

11. Should there be a requirement that some quantity of each rate class procurement group's load be served by spot market purchases, some quantity through short-term contracts, and some quantity through long-term contracts? In contrast, should a DSP be permitted to rely on only one or two of those product categories with the choice depending on what would be the prudent mix and would yield the least cost to customers over time for that specific DSP?

12. Should the DSP be required to hedge its positions with futures including natural gas futures because of the link between prices of natural gas and the prices of electricity?

13. Is the "prudent mix" standard a different standard for each different customer class?

14. What will be the effects of bankruptcies of wholesale suppliers serving default service supplies on short and long term contracts?

15. Does Act 129 allow for an after-the-fact review of the "cost reasonableness standard" in those cases where the approved default service plan gives the EDC substantial discretion regarding when to make purchases and how much electricity to buy in each purchase?

16. How should the requirement that "this section shall apply" to the purchase of alternative energy credits be implemented?

Proposed changes to the PUC's default service policy statement (M-2009-2140580) are minimal, mainly reflecting new definitions under Act 129, such as defining long-term contracts as no less than four years and no more than 20 years in length.

Integrys ... *from 1*

structures in place that will allow this business to grow in a controlled fashion while limiting the risk profile and scale of its operations," said Charles Schrock, CEO of Integrys Energy Group.

Integrys said that it has met its goals of reducing collateral support which it provides to Integrys Energy Services through divesting other competitive units such as wholesale gas marketing/trading, wholesale power marketing/ trading, and certain generation.

The retention of the restructured retail marketing business will have a positive impact on the previously issued earnings per share guidance for 2011.