

Wednesday November 5 2008

## California ISO proposes price caps, floors for various markets

The California ISO wants to put in a price cap and a price floor on energy, ancillary services and residual unit commitment (RUC) capacity as its market changes.

The cap of \$2,500/mwh and the floor of -\$2,500/mwh would protect market participants against the steepest price swings after the Market Redesign and Technology Update (MRTU) is put in place, the ISO said in a FERC filing Monday.

Prices in organized markets weren't previously allowed to rise above \$1,000/mwh but FERC recently approved a series of changes that included scarcity pricing.

Those changes didn't include a federal price cap, leaving that choice up to the regional markets themselves.

The price cap and floor are distinct from the bid caps already in place -- and are designed to dampen the impact of

price swings observed in some tests where prices surged or sank when transmission constraints came into play.

In those tests, an LMP in excess of \$4,500 cleared in the Humboldt area and one of -\$3,200/mwh cleared on the Blythe and Eagle Mountain nodes.

Cal-ISO tried to prevent those from happening but it can't rule the possibility of something like that after MRTU goes into place.

MRTU has a \$500 energy bid cap that's to rise to \$1,000 eventually -- but the cost of serving 1 mwh in a particular location might end up above the maximum bid.

That can push prices well above the bid caps, making price limits on LMPs necessary to prevent extreme situations, said the ISO.

Cal-ISO believes the \$5,000 range protects the market without overly

dampening price signals.

Any time the cap or floor is reached, the ISO plans to publish the prices that would have cleared to make the use of caps transparent.

The ISO doesn't want price limits used as a band aid for faulty software and plans to continue to test and probe price swings -- and fix the system where needed.

Cal-ISO isn't proposing an end date for the price limits but will discuss them with stakeholders within the first year of MRTU if they get approved.

The price caps will also come up in the periodic reports the ISO has to file with FERC on the MRTU.

Between those two check-ups, the cap and floor can be assessed and a determinations made as to whether they are needed in the long-term.

[\[Comments\]](#)

## Gas marketer Nordic Energy to start selling power in Illinois

Nordic Energy, a player in the Illinois natural gas market -- is now jumping into the retail power game.

The firm was granted a certification of authority from the Illinois Commerce Commission (ICC) to become an alternative retail electric provider (ARES).

The timing couldn't be better. "Just looking at the general regulatory landscape, there's about 250,000 customers that will be pushed off of ComEd.

Eventually all of the smaller customers will be pushed into the open market over the next couple of years and we view that as a really big opportunity to grow our presence in that market," Nordic President James Deering told us yesterday.

There have been moves recently to declare C&I's in the Prairie State competitive, and Nordic wants to take advantage of that.

Nordic's goal will be to service C&I customers with an annual use of more than 15,000 kw annually in the ComEd territory. The firm will use its natural gas experience to help guide it through the power landscape.

Its natural gas territory touches on four utilities in Illinois and Indiana, including Peoples Gas, Northshore and NICOR, territories in Illinois and the NIPSCO territory in Indiana.

"We know the region, we know the challenges and we have the industry experience to excel in the electric market," said Deering.

[\[Comments\]](#)

## New York City demand curve debate hears from ISO, PSC

The New York ISO, PSC and transmission owners want to see FERC throw out a complaint filed by generators in New York City's capacity market asking that demand curves be updated to reflect a tax exemption that the city's government let lapse.

The curve produced unjust prices (RT, [Oct-15](#)).

But the tax didn't lapse for existing generation and the complainants haven't shown that any new generation will be negatively impacted, the ISO and PSC both said in separate statements filed Monday.

Letting the demand curve be updated would mean existing generators would collect the tax break and change capacity prices designed to compensate for its loss.

That would amount to \$100 million in windfall profits this year and next and could surpass \$300 million by 2010, the PSC argued.

The generators already took their case to the NYISO board and the latter

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decided changing just one component of the demand curve was prudent.

The curve is changed every three years -- and the lapse of the tax could be handled in the next renewal along with many other issues in an open stakeholder format.

The city is expected to have sufficient resources in place throughout the duration of the current demand curve.

Adjusting the demand curve to where the generators want it would push up the city's capacity clearing price to \$8.34 kw/month from \$6 kw/month, a 39% boost.

NYISO would like to wait for the new demand curve to be calculated and put in place by 2011 before judging the

extent to which the tax benefit's lapse should effect it.

The generators want fast track processing but they waited for six weeks after NYISO's board decided against them and the grid operator believes that should negate the request.

The capacity owners aren't alone. PSEG subsidiaries argued in favor of the requested relief in their own filing.

The loss of the tax incentives has put the cost of new entry, used to calculate the demand curve, out of whack.

That means market participants aren't getting the right price signals and it could retard the growth of new supply and demand resources, PSEG argued.

[Comments]

## California works on CHP rules to comply with new law

The California PUC wants all utilities in the state to have to buy excess power generated by combined heat and power (CHP) systems, it said in a scoping memo yesterday.

The PUC would issue a rule implementing a law passed last year called the Water Heat and Carbon Reductions Act that mandates the purchase of excess energy from certain CHP systems.

Those systems have to adhere to sizing, energy efficiency and pollution controls and utilities would have to buy up to 20 mw of their excess production.

The PUC will also have to establish a "pay-as-you-save" pilot program that requires all power firms to finance the upfront costs for buying and installing the

systems for certain customers including any level of government facility in the state plus non-profit organizations.

The PUC is setting up a rulemaking process to decide exactly what a new CHP system is.

The process will also establish the policies and procedures for buying CHP power -- and I will adopt rates, charges and tariffs.

It will also adopt procedures for each electrical organization to adopt a pay-as-you-save pilot program.

Much of the policies will be adapted from the PUC's procedures, to buy excess power from small qualifying facilities and generation owned by wastewater agencies.

[Comments]

## NRG Energy deals with proposed buyout by Exelon at its own pace

While Exelon is pushing the positives of buying NRG Energy (RT, [Oct-13](#)), the proposed target of the takeover tapped the brakes a bit.

In a letter delivered to NRG Nov 3, Exelon CEO John Rowe offered several plusses of the merger and reported that Exelon doesn't see any regulatory obstacles in buying all of NRG's outstanding stock. But NRG leaders told Exelon executives they won't be rushed.

"We advised our shareholders and other constituencies that NRG's board of directors will review Exelon's proposal with our advisors and determine the appropriate response in due course," said NRG CEO David Crane.

"The NRG board of directors is taking the proposal seriously and

undertaking a thorough and diligent review of the proposal." The board "will respond promptly when our review of the Exelon proposal has been completed."

[Comments]

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## Pepco earnings pinched by shrinking power demand

Pepco Holdings saw its consolidated earning drop in Q3 2008 compared to the same time last year -- from \$167.6 million to \$118.8 million.

That fall was driven by lower power delivery earnings due to lower sales and higher operation and maintenance expenses partially offset by the impact of the distribution base rate order issued in the District of Columbia in January 2008.

Lower Pepco Energy Services earnings were due to mark-to-market losses from economic hedges of PJM congestion risk and power -- plus lower generation output.

Conectiv Energy realized higher earnings primarily due to gains from fuel hedges, higher capacity prices, higher energy marketing margins and a mark-to-market gain from economic coal hedges.

Partially offsetting factors at Conectiv Energy were declines in spark spreads, generation output, emission credit sales and load due to mild weather.

"During the third quarter, our results were adversely affected by lower sales in our power delivery business caused by both milder weather and lower non-weather related customer usage," said CEO Dennis Wraase.

"While we experienced customer growth of about 0.6% in our service territory, weather adjusted kilowatt hour sales decreased by 2%."

The Bill Stabilization Adjustment the firm has in place in Maryland provided some insulation from changes in power use. "I am pleased that during

the quarter Delaware also approved a revenue decoupling rate structure to be implemented at the time of Delmarva Power's next base rate case," said Wraase.

"We expect the recessionary pressures on the economy to continue to impact demand and customer growth."

Power delivery sales were 14,051

## PPL looks past expected tough years to 2010

"During the third quarter of 2008, we saw unprecedented levels of volatility in the energy commodities market, a rapid decline in the capital devoted to energy markets by a range of market participants and a substantial drop in wholesale electricity prices," said CEO James Miller. Thus, "we experienced unrealized losses in certain of our energy positions that, along with extended outages at two of our large coal-fired plants in Pennsylvania, resulted in third-quarter energy margins that are much lower than a year ago."

Next year isn't expected to be much better, added Miller.

"Many of the pressures that affected our results in 2008 also are expected to continue into 2009, including ongoing cost pressures, fixed generation prices in Pennsylvania and higher financing costs."

Thus PPL is looking ahead to 2010. "While forward energy prices have declined from earlier in the year, we remain extremely well positioned for 2010 and beyond because we sold forward a significant portion of our available power at the higher prices and have fuel contracts in place that are significantly below current market prices," said Miller.

[Comments]

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gwh in Q3 of 2008 compared to 14,590 gwh for the same period last year. Cooling degree days fell 4% for the three months ending Sept 30 compared to the same period in 2007.

Weather-adjusted electric sales were 13,813 gwh in Q3 of 2008 compared to 14,112 gwh for the same period last year.

[Comments]

## 4 stories in 2 minutes

### Consolidated Edison

**asks for \$1.7 billion:** A utility filing sought over \$1.7 billion in rate hikes over a three-year period ending March 2012. The firm asked the New York PSC for \$819 million from March 2009 to March 2010; \$478 million from 2010 to March 2011 and \$420 million from 2011 to March 2012. The firm initially sought \$654 million in the first year but a more recent filing upped the amount. The second and third year requests weren't yet updated.

### Duke filings reveal

**nuclear's ballooning price:** While some are touting nuclear as the future, the price tag to build plants seems hard to pin down. Duke Energy recently sent a letter to the North Carolina Utilities Commission that figured a new nuclear plant in the state would cost \$11 billion -- about twice what was originally proposed by the firm. And that price doesn't include financing costs.

**CORRECTION:** In an article on Cargill Power Markets' complaint seeking redress of being denied transmission service rollover rights (RT, [10/28](#)), we got some facts wrong. The firm was trying to rollover service for five years starting in 2009 -- from service procured at the end of last year and for use this year. [Comments]

### Monday's NYMEX

**gas price creeps up:** The NYMEX December natural gas futures rebounded from early losses to end in shallow positive ground Monday, analyst Jackson Mueller reported. The front month rallied on short covering despite a steep decline in crude prices. In the end, natural gas closed at \$6.838, adding on 5.5¢.

### Puget Sound customers

**may receive wind credit:** A federal wind power credit may be passed through to Puget Sound Energy customers. The credit is a federal income tax benefit from PSE's ownership of two wind power generating plants. The credit, in effect since 2007, is adjusted annually based on the power output of the wind facilities. If approved by the Washington Utilities and Transportation Commission, the wind credit will rise 28¢ and bring the total monthly credit to \$1.68 for homes using 1,000 kwh/month.

[Comments]

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

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