

TRENDS IN THE COMPETITIVE ELECTRIC MARKET FOR BUSINESS CUSTOMERS

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KEY REGIONAL ISSUES

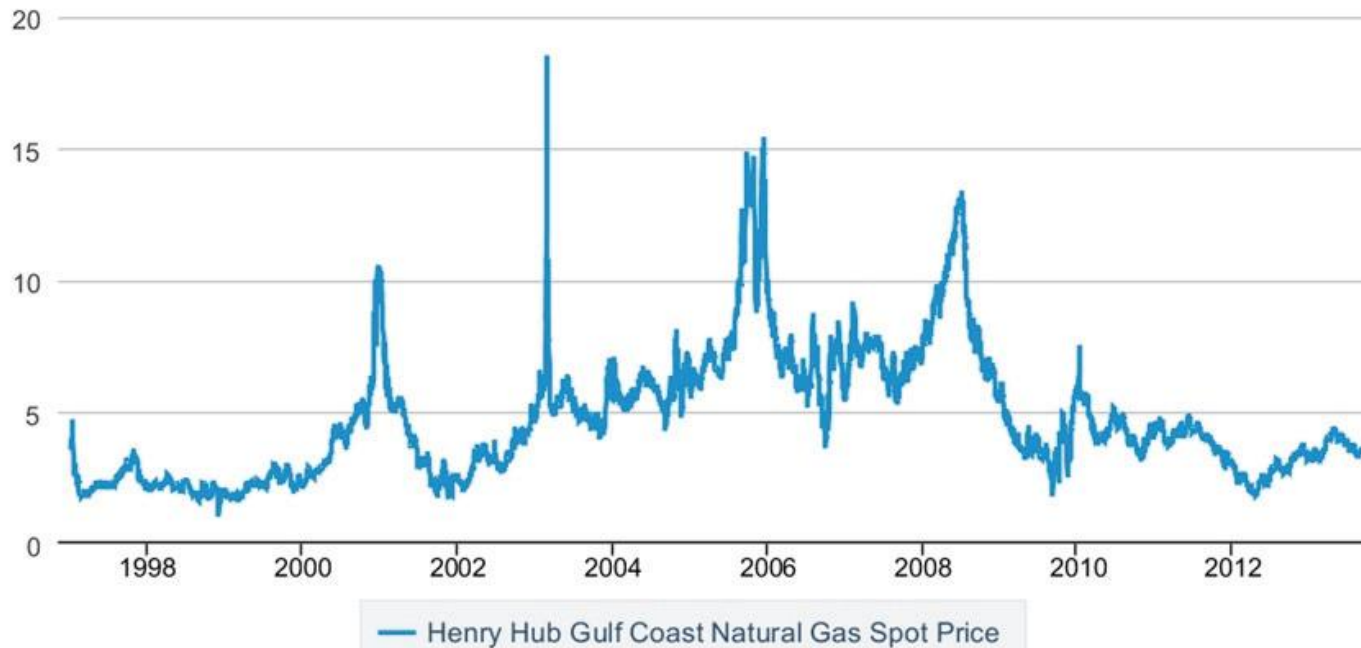
- Impacts of Vermont Yankee Closure
- Lower Hudson Valley Capacity Zone
- ISO NE Winter Reliability RFP Cost Allocation
- Natural Gas Versus Canadian Hydro



You've Seen This Before, You'll See It Again

Henry Hub Gulf Coast Natural Gas Spot Price

Dollars/Mil. BTUs



Source: U.S. Energy Information Administration



Vermont Yankee Retirement



- On 8/27 Entergy announced it will shut down the 600 MW nuclear plant by Q4 2014.
- Vermont Yankee has no capacity obligation for 2013/14, 2014/15, 2015/16.
- The plant cleared a capacity obligation in FCA #7 (2016/17). They can enter into a bilateral or reconfiguration auction to trade out of this obligation.

Vermont Yankee Retirement

- Entergy submitted a non-price retirement request for 2017/18. This type of request allows a resource to retire even if the ISO finds that it is needed for reliability. If VY bilaterals out of its remaining capacity obligation it can retire earlier than 2017/18.
- The retirement will likely put some upward pressure on LMPs in New England, though the fact that the plant was permitted to delist likely means its closure will not affect reliability.
- The retirement will increase the region's reliance on gas-fired generation, which could exacerbate reliability issues related to generator gas supply issues. This could translate to some increase in out of merit commitments made to address fuel concerns, which would increase uplift charges and depress real-time LMP's.
- The risk of seeing this type of uplift/LMP impact during the winter is already high, however.



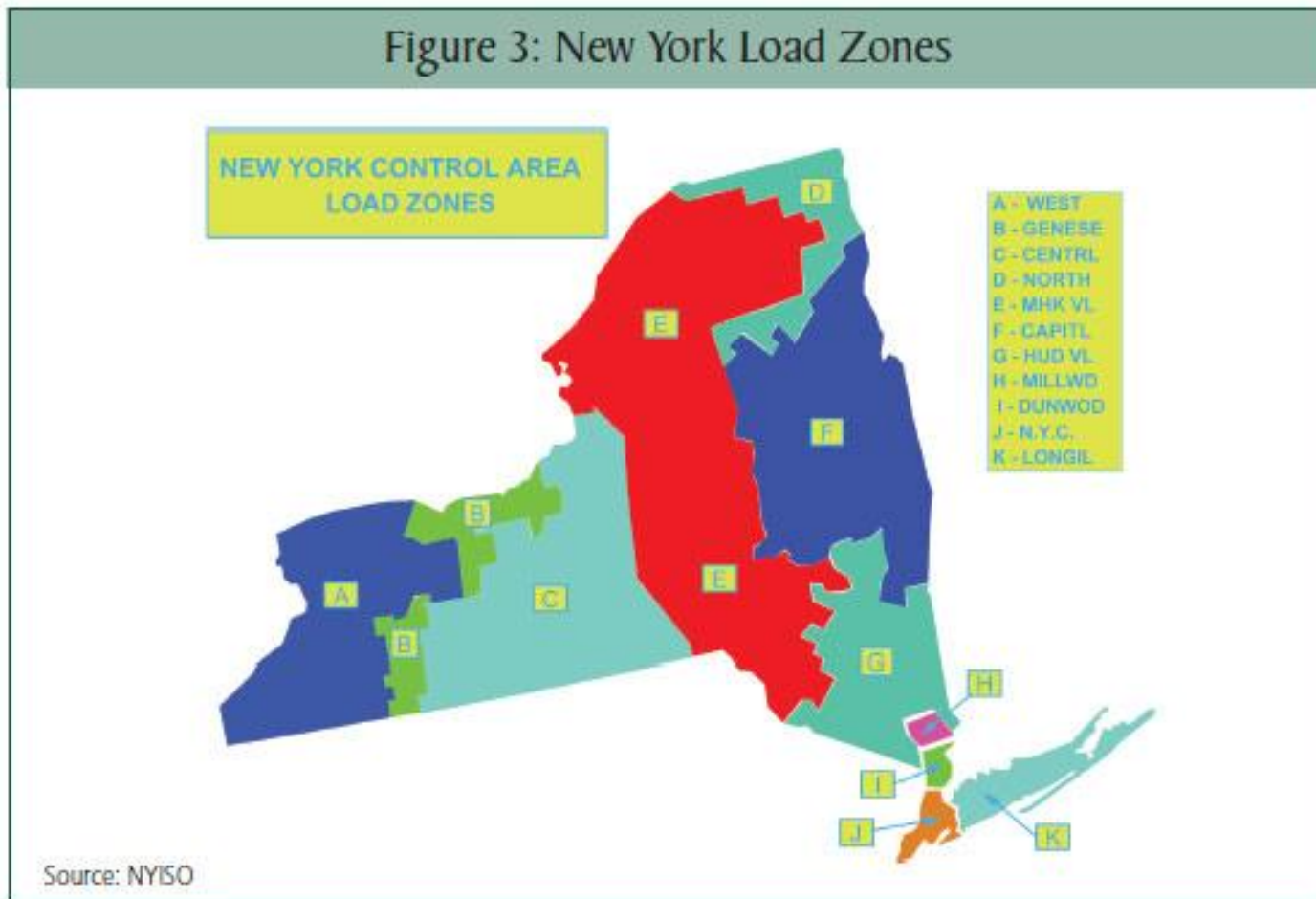
Lower Hudson Valley Capacity Zone

- In August 2013, FERC approved creation of a new capacity zone in the NYISO, composed of load zones G, H, and I.
 - Hudson Valley, Millwood, Dunwoodie and NYC
- NYISO currently comprises 3 load zones: J (NYC), K (Long Island), and the rest of the state (ROS).
- FERC found that transmission constraints in the region justified creation of new capacity zone to send proper price signals regarding the need for new capacity and/or transmission.
 - Rejected NYPSC argument that coming transmission upgrades would relieve constraints without new zone.



Lower Hudson Valley Capacity Zone

Figure 3: New York Load Zones



Lower Hudson Valley Capacity Zone

- Historically, prices in Zone J have been materially higher than in ROS:

Month	Zone J	ROS
1/12	4.91	3.48
2/12	4.91	3.48
3/12	4.91	2.09
4/12	4.91	1.50
5/12	16.29	5.76
6/12	15.54	6.79
7/12	15.21	6.48
8/12	14.94	6.32

- Overall impact will be to increase capacity prices for customers in zones G, H and I, which had previously been priced in ROS
- Zone J will also be affected but impact should be much smaller than in G, H and I



ISO NE Winter Reliability RFP Cost Allocation

- The FERC based its decision on two main points:
 - Allocating the cost to real-time load is consistent with previous FERC decisions that say that costs should be borne by those that benefit and in their determination, it is the Real-Time Load that benefits from this program.
 - The program is a generation related reliability program and not a transmission related reliability program and therefore, network transmission customers shouldn't be expected to pay the costs.



ISO NE Winter Reliability RFP Cost Allocation

- Direct Energy and RESA are assessing the prospects for rehearing on the cost allocation issue.
- The bids for this program have yet to be approved by FERC but it is anticipated that the approval for the \$75 million in bids will come later this month.
- Currently, the ISO plans on collecting the \$75 million in three equal installments during the months of January, February and March.
- For existing contracts this will mean a material impact on unhedgeable uplift.



Natural Gas v. Canadian Hydro

- Natural gas production in Northeast at all-time high
- Delivery to New York and New England limited by pipeline infrastructure
- Canadian officials looking for off-take agreements for expanded hydropower production
- Is it “green” enough? Connecticut thinks so; others not so sure.



OR

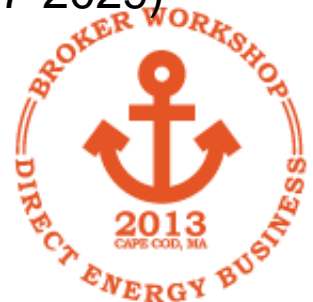


OR BOTH?



Natural Gas v. Canadian Hydro

- NESCOE conducted study of short- and long-term solutions to potential gas shortage in New England
- Key findings:
 - Gas-supply requirements driven by episodes of extremely cold weather can be very costly and create significant reliability risks
 - Short-term solutions (2014-2016) provide net benefits to New England customers
 - In the absence of greater demand reduction / energy efficiency/ non-natural gas-powered distributed generation solutions, a Cross-Regional Natural Gas Pipeline solution presents higher net benefits to New England consumers than do alternative long-term solutions (2017-2029)



KEY STATE ISSUES

- New York and Connecticut Broker Licensing Status (and general update)
- Massachusetts RPS and APS developments
- Purchase of Receivables Update (NJ, MA, DE)
- DP&L ESP Order
- PEPCO/Delmarva Loss Factors
- Michigan Shopping Cap Legislation and other state matters



New York and Connecticut Broker Licensing and General Update

- No timeframe for release of NY staff recommendation in retail markets docket
- Staff straw man proposal appeared to cast broad regulatory net
- Little evidence of desire to directly regulate brokers and other intermediaries
- New chair and commissioner poised to take NYPSC in more pro-market direction
- Connecticut docket examining possible regulation of intermediaries approaching 2nd anniversary of being fully briefed and ready for decision
- As in NY, may be little appetite on part of PURA to expand direct regulation of intermediaries



Massachusetts RPS and APS developments

- Emergency regulations for extension of SREC I 400 MW program
- The compliance obligation formula of the program as of the effective date of the regulations and after the program reaches its program cap will be revised from 400 MW to the total qualified capacity announced by DOER in July 2014, to accommodate actual supply. **DOER will provide exemption to the additional compliance obligation for load under contract prior to the effective date of the emergency regulation. 225 CMR 14.07(2)**



**The problem:
Emergency regulations
will be effective late
September 2013, leaving
contracts entered into
between then and July
2014 in limbo.**



Massachusetts RPS and APS developments

- SREC II program: Raises goal to 1600 MW by 2020
- Post 400-MW program will create a new separate SREC market (SREC-II) with separate new compliance obligation on retail electricity suppliers.
- New Solar Carve-Out Program will set Program Cap of 1200 MW (or correspondingly less if SREC-I cap exceeds 400 MW).
- Financial incentive for solar projects will decline over time.
- Financial incentive will differentiate between market sectors.
- Carve-Out projects will be “term limited”, that is be eligible for SRECs for a fixed term (10 years), then moved over to Class I status.



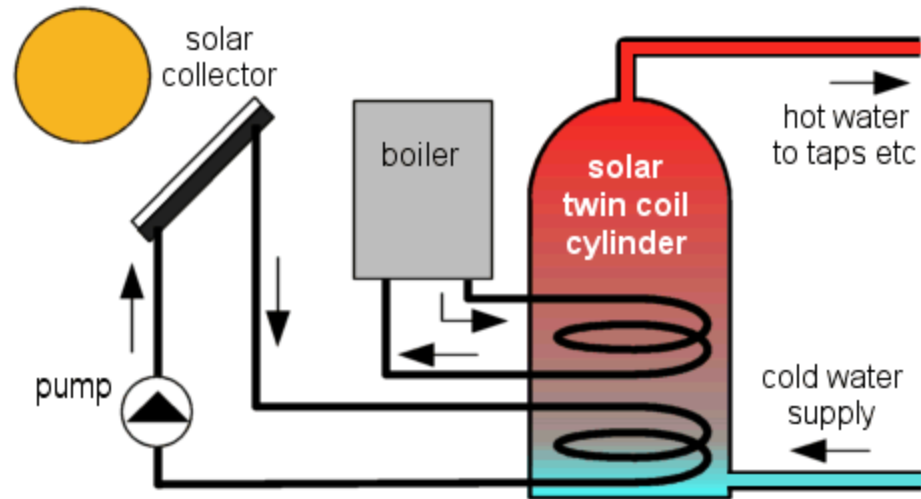
Massachusetts RPS and APS developments

- A separate but similar Solar Credit Clearinghouse Auction will provide a price support mechanism. All projects will have a fixed 10 year opt-in term.
- Compliance obligation will be set by formula to achieve 1200 MW by 2020 and to help maintain market balance.
- Managed growth and cost reductions achieved by competitive solicitations, no less frequently than semi-annually, for large-scale ground mounted projects to fill available supply .
- Forward Minting for direct-owned small/residential projects to reduce SREC transaction costs and financing burden.



Massachusetts RPS and APS developments

- Latest DOER proposal: Development of renewable thermal as alternative to heating oil
- SD1135 would include renewable thermal in Alternative Portfolio Program



- Provide performance-based incentive (Alternative Energy Credits— AECs)
- Energy>Electricity
- Technologies: Facility using sunlight, biomass, biogas, liquid biofuel or temperature differences in ground, air or water
- Verified through an on-site utility grade meter or other means satisfactory to the department

Purchase of Receivables Update

- Massachusetts
 - Technical conference October 8
 - Open issues in Supplier Services agreement
 - Indemnification
 - Set-off of amounts owed
 - Existing receivables treatment
- New Jersey
 - Electric receivables will be treated in same manner as gas
 - Revert to dual billing at 120 days in arrears
- PEPCO DC
 - Program effective October 7



Purchase of Receivables Update

- PEPCO DC details
- Discount rates:
 - GS-LV ND, T, SL, TS, TN (SOS) 1.3296%
 - GS-LV, GS 3A, GT LV, GT 3A, GT 3B, RT (SOS) 0.2083%
 - GSLV-ND, GS-LV, GS 3A, GT LV, GT 3A, T, SL, TS (Market-Priced Service) 0.0130%
- Non-current balances billed by Pepco for 90 days, after which they are returned to suppliers for collection.
- Suppliers will receive EDI 820 and ACH payment ~ 21 to 25 days after bill is issued.
- Tariff has no supplier consolidated bill option
- Eliminates \$0.75 billing charge for C&I customers



Dayton Power & Light ESP Update

- PUCO issued order on September 4
- On September 5, PUCO said “oops;” reissued order on September 6, with corrections.
- DP&L will conduct an energy-only auction for :
 - 10% of standard service offer (SSO) load for 1/12014 to 12/31/2014
 - 40% for 1/1/2015 to 12/31/2105; and
 - 70% for 1/1/2016 to 5/31/17.
- **The ESP term will end 5/31/2017, at which time the company is expected to have divested all of its generation assets.**
- **Service Stability Rider (SSR)** – Nonbypassable charge intended to maintain DP&L’s financial integrity. DP&L may collect up to \$110 million through SSR over 3 years (2014-2016) to achieve an ROE target of 7-11%.



Dayton Power & Light ESP Update

- PUCO also allowed DP&L to file an SSR Extension Rider (SSR-E) to initially be set at zero but to permit DP&L to request an increase in the SSR-E not to exceed \$45.8 million for five months (1/1/2017 – 5/31/2017) if three conditions are met:

1. DP&L has divested all of its generation assets no later than May 31, 2017;
2. DP&L must have filed an application to modernize its infrastructure through implementation of a smart grid plan and AMI meters by July 1, 2014; and
3. DP&L must have implemented a plan to modernize its billing system to, at a minimum, include rate-ready billing, percentage off price-to-compare pricing, and the ability to support AMI. Billing system modernization plan approved by Staff should be filed by 12/31/2014.



Dayton Power & Light ESP Update

- **Alternative Energy Rider (AER)** – Approved with modifications
- **AER-N (to recover the costs of Yankee Solar Generating Facility)** – Denied.
- **Reconciliation Rider (RR) to recover costs of CBP** – PUCO divided RR nonbypassable (RR-N) and bypassable (RR-B) riders. RR-B will recover the bypassable components of DP&L's proposed RR, CBP auction costs, CBP consultant fees, Commission consultant fees, audit costs, supplier default costs and carrying costs. RR-N should recover any deferred balance that exceeds 10% of the base amount of riders FUEL, RPM, AER, and CBT.
- **Transmission Cost Recovery Rider (TCRR)** – Removed from RR and split into market-based and nonmarket-based elements, effective 1/1/2014. TCRR-N would recover NITS, RTEP, and other non-market-based FERC/RTO charges.



Dayton Power & Light ESP Update

Competitive Retail Enhancements in the Order

- Eliminates the minimum stay and return to firm provisions in the generation tariffs;
- Implements a web-based portal for CRES providers to obtain customer information;
- Implements an auto-cancel feature to DP&L's bill-ready billing function;
- Removes the enrollment verification that requires a CRES provider to have the first 2 digits of the customer name on the account as well as the correct account number;
- Supports historical interval usage data requests via EDI; and
- Provides CRES providers a standardized sync list on a monthly basis.



PEPCO/Delmarva Loss Factors

Maryland (accepted, effective date pending)

Pepco Loss Factors

<http://webapp.psc.state.md.us/Intranet/Maillog/content.cfm?filepath=C:\Casenum\Admin Filings\110000-159999\147028\Pepco'sSupplierCoordinationTariff043013.pdf>

Delmarva Loss Factors

<http://webapp.psc.state.md.us/Intranet/Maillog/content.cfm?filepath=C:\Casenum\Admin Filings\110000-159999\147030\DPL'sSupplierCoordinationTariff043013.pdf>

District of Columbia

Pepco Loss Factors (proposed effective date 11/1/2013)

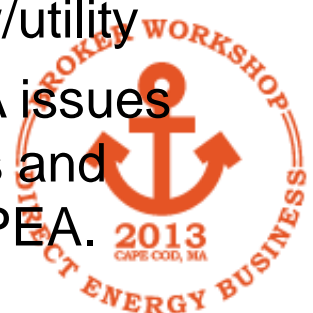
http://www.dcpsc.org/edocket/docketsheets_pdf_FS.asp?caseno=FC945&docketno=2802&flag=D&show_result=Y

Delaware – still awaiting filing



A Grab Bag of State Issues

- Michigan cap legislation
- New Jersey legislative matters
 - Working with Governor's office and with AG to craft amendments to Senator Greenstein's telemarketing legislation (S-2301, A-3422).
 - Discussions with Chairman Chivukula regarding legislative proposals to create shopping website, make POR 100% without recourse, and change BGS structure to lower CIEP threshold and change to quarterly pricing for non-CIEP customers.
- Illinois
 - ComEd PLC proposal – could affect ability to compete w/utility
 - IPA plan – 2 procurement s per year to help address PEA issues and capture returning aggregation customers. Suppliers and others still prefer all requirements approach to address PEA.



A Grab Bag of State Issues

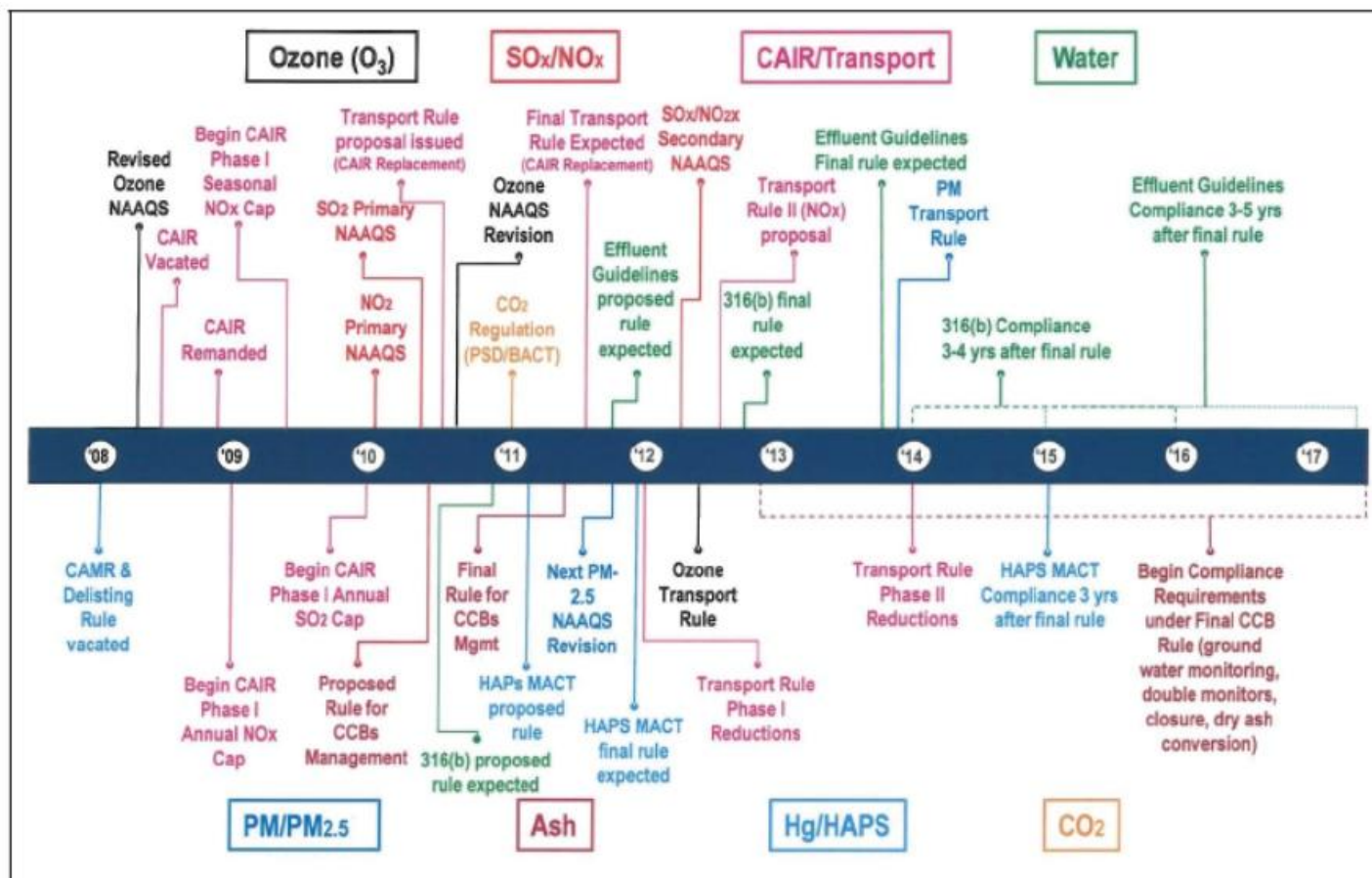
- **Arizona Restructuring Stalls**
- ACC investigation into restructuring closed abruptly based on perceived legal obstacles to market-based pricing regime
- **Indiana Restructuring Gains Momentum**
- Regulatory Flexibility Committee conducts day-long hearing on restructuring
- Strong support for restructuring from industrial users
- Conditions may be right for Indiana, with rising utility prices and additional federal compliance costs for coal plants on the way.



UPDATE ON FEDERAL ISSUES



A Train Wreck Coming?



Source: Edison Electric Institute, <http://www.eei.org/whatwedo/PublicPolicyAdvocacy/TFB%20Documents/100525SheaCongressCoallmpacts.pdf> (Figure 7).

EPA Rulemakings

- EPA continues moving forward with development and implementation of regulations affecting power sector
 - Utility MATS – mercury and other air toxics
 - CWA 316(b) – cooling water intake structures
 - Coal combustion residuals
 - Cross-State Air Pollution Rule – SO₂ and NO_x
- GHG regulations
 - BACT for new facilities or substantial modifications
 - Tailoring rule thresholds
 - GHG NSPS



Utility MACT Rule

- EPA required to regulate hazardous air pollutants under section 112 of the Clean Air Act
 - Statutory standard is Maximum Available Control Technology (MACT)
 - Bush-era Clean Air Mercury Rule remanded by court
 - Final rule on Mercury and Air Toxics Standards (MATS) published in February 2012
- Scope
 - Covers coal- and oil-fired power plants nationwide



Utility MACT Rule

- Controls are stringent
 - EPA required to base limits on top 12% of facilities
 - No emissions trading or other compliance flexibility
- Compliance required by early 2015
 - One-year extension may be granted by States
 - EPA may use administrative orders to provide an additional year if there is reliability concern
- EPA estimated compliance cost of \$10.9 billion in 2016
 - Causing unit retirements where retrofit costs are not justified by plant economics
- Challenge to final rule is pending in the DC Circuit



Cross-State Air Pollution Rule

- Clean Air Act requires states to develop plans to prevent interference with air quality in other states
- EPA tried to address cross-state pollution with 2005 Clean Air Interstate Rule; remanded by court in 2008
- Cross-State Air Pollution Rule (CSAPR) issued in July 2011; replaces CAIR
- CSAPR has two main components
 - Emissions “budgets” for SO₂ and NO_x from 27 Eastern states
 - Emissions trading program
- **Estimated compliance cost: \$2.8 billion/year**
- Vacated and remanded by DC Cir. In 8/2012, so CAIR remains in force; S. Ct. recently granted cert.



NSPS for Greenhouse Gases

- Section 111 of the Clean Air Act provides for NSPS that reflect best demonstrated system of emission reductions
- EPA proposed NSPS for GHG emissions from new power plants under section 111(b) in April 2012
- Proposed uniform emission performance standard for new electric generators that cannot be met by coal-fired units without carbon capture and sequestration
- Administration's June 2013 Climate Action Plan
 - Re-propose 111(b) rule in September 2013
- Under section 111(d), States implement NSPS for existing sources subject to EPA oversight
- Will propose rule in June 2014
- Interplay with existing GHG programs (e.g., RGGI)?



Section 111(d)

- Section 111(d) – New Source Performance Standards for existing sources
- Directs EPA to establish procedure similar to § 110
- States set “standards of performance”
 - May take into account remaining useful life
- Subject to approval by EPA
 - EPA may impose plan if state plan is unsatisfactory



Key Elements of Implementing Regulations

- EPA-State process
 - EPA issues guideline document with emission
 - guideline and compliance schedule
 - Sub-categorization required under some conditions
 - State plans must be “no less stringent”
 - States may vary from EPA-set guideline under certain conditions
 - Climate Action Plan calls for State plans to be submitted June 2016
- Assumed compliance deadline: 12 months after state plan submission



State Variances

- Per implementing regulations, State plan may include case-specific variances
- Variance can provide less stringent standard or extended compliance timeline
- State must show:
 - Unreasonable cost due to plant age, location or design
 - Physical impossibility of installing control equipment, or
 - Other factors that make less stringent approach “significantly more reasonable.”



Summary of Section 111(d) status

- Regulatory process is under way
 - EPA outreach over the next year
 - NOPR in June 2014
 - Final Rule in June 2015
- Statutory language is broad
- Substantial discretion left to EPA and States
- **Legal challenges inevitable**

