Energy Choice Matters

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FirstEnergy Solutions Supplying 73% of Affiliated Ohio Load

As of last week, FirstEnergy Solutions is supplying 73% of load in its affiliated Ohio distribution territories, FirstEnergy Corp. CFO Mark Clark reported during an earnings call. The total includes competitive retail sales and wholesale sales to tranches won (or later acquired from other suppliers) in the distribution companies' Standard Service Offer auction.

That's up from supplying approximately 65% of affiliated Ohio load during the third quarter of 2009, Clark said. Last year, FirstEnergy Solutions was serving nearly 100% of affiliated Ohio load through the rate certainty plan and some government aggregations.

Versus the year-ago, competitive retail sales at FirstEnergy Solutions have increased 18%, Clark said. FirstEnergy Corp. CEO Anthony Alexander credited strong execution in both government aggregation and direct sales to commercial and industrial customers for the growth in Solutions' sales. Growth has surpassed Solutions' annual target. Clark said that Solutions' strategy is to keep 7% to 10% of its generation back for the wholesale market, spot, ancillaries, and similar opportunities.

Clark would not discuss margins other than to report that Solutions' margins are "a little soft" because of the economy, weather, and particularly the decline in industrial sales which has, "left an awful lot of capacity in the market." Still, Clark said that Solutions is, "pleased with the margins and we're making sales."

"[P]art of our strategy is to get these retail customers under contract so when the auctions are up hopefully the margins will be up when these contracts just automatically [are] renewed," Clark added.

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IDT Energy Reports Strong Margins for Quarter Ending July 31

Adjusted EBITDA at IDT Energy for the fourth quarter ending July 31, 2009 increased to $5.0 million from $1.6 million a year ago, due to continued strong margin growth, year-over-year customer base expansion, and lower sales costs. Income from operations was identical to the adjusted EBITDA figures in both periods.

IDT's Vice Chairman Jim Courter said that the favorable market conditions which created large margins have since dissipated, and reported that IDT's rate of customer acquisition has slowed significantly.

For the quarter ending July 31, 2009, gross margin more than doubled from the year-ago period, rising to 25.3% from 12.2%. Gross margin declined from the 29.7% margin achieved in the quarter ending April 30, 2009, when extraordinarily volatile energy prices boosted margins. IDT, which predominantly offers variable-priced contracts, has typically procured supply on the spot market for those contracts. A rapid reduction in wholesale power prices that outpaces the reduction in retail rates generates high gross margins as experienced recently by the retailer.

IDT Energy reorganized its sales teams and restructured its marketing approach during the fourth quarter to create a significantly smaller, but better trained external sales force. IDT said that with the reorganization it expects to reduce customer churn, and to focus acquisition efforts on higher

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Pepco, Delmarva File Type II SOS Rates

Pepco and Delmarva filed updated Type II SOS rates for the three-month period beginning December 1, 2009.

Pepco

MGT LV II

On Peak	9.573¢/kWh
Intermediate	9.573¢/kWh
Off Peak	9.573¢/kWh

MGT 3A II

On Peak	9.438¢/kWh
Intermediate	9.438¢/kWh
Off Peak	9.438¢/kWh

Delmarva

Small General Service - Secondary Service

SGS-S	9.2875¢/kWh

Large General Service - Secondary, LGS-S, and General Service - Primary, GS-P

On Peak	9.2875¢/kWh
Off Peak	9.2875¢/kWh

Gexa Contribution to Parent Improves $16 Million Year-Over-Year

Gexa Energy recorded another strong quarter from favorable margins, and contributed an incremental improvement of $0.04 per share (about $16 million), versus the year-ago period, to results at NextEra Energy Resources, a subsidiary of FPL Group.

NextEra's results also benefited from strong performance in wholesale marketing and trading and new wind investment. While NextEra's adjusted earnings were up 21% for the third quarter at $262 million from $215 million a year ago, the results lagged NextEra's expectations, as retail and wholesale marketing gains were offset by unfavorable market conditions impacting its Texas fossil plants, and lower than normal wind production from existing assets.

New wind investments were credited for about $41 million in incremental earnings growth versus the year-ago period, driven by approximately 1,180 MW of new wind relative to last year's third quarter. Contributions from the existing wind portfolio declined about $8 million relative to last year's quarter, driven by higher curtailments, and to a lesser degree the expiration of some production tax credits.

Wholesale marketing and trading performance increased by about $12 million versus the prior-year quarter, from favorable market conditions.

Results from NextEra's gas-fired fleet in Texas fell by about $8 million versus the year-ago period, with virtually all of the decline attributed to market conditions. Both spark spreads and ancillary revenues were much lower than expected, as contributions from the Texas fossil assets were below expectations by $24 million. NextEra's NEPOOL assets saw a $4 million incremental gain in financial performance, year-over-year.

GAAP earnings at NextEra for the quarter were $233 million, compared with $483 million in the prior-year quarter, reflecting the impact of non-qualifying hedges and net OTTI (Other Than Temporarily Impaired).

NextEra said that is on track to build 985 megawatts of wind energy for the year 2009, not including approximately 185 megawatts of recently completed wind projects that are to be acquired from Babcock & Brown under a pending agreement. NextEra continues to believe that it will construct approximately 1,000 megawatts of new wind in 2010.

FPL Group has not yet filed a 10-Q.

Move to Fixed-Priced Products Hurts Scana Energy Results

Scana Energy, Scana's retail natural gas marketing business, posted a loss of $3 million for the third quarter, versus break-even results a year ago, primarily from reduced margins as customers shifted from variable plans to lower-margin fixed-rate plans.

The trend has been felt by other Georgia gas marketers, with migration to fixed rather than variable products negatively impacting results at competitor SouthStar in the second quarter (see Matters, 7/31/09).

Reduced margins at Scana Energy offset lower bad debt (from reduced commodity prices) and lower operations and maintenance expenses versus the year-ago period.

Based upon current gas prices, Scana anticipates that the shift in customer preference to fixed-rated contracts will continue. Scana expects the marketing unit to earn about $24-26 million annually, slightly down from earlier expectations of $30 million.

Scana cited the potential expansion of AGL's Strategic Infrastructure Development and Enhancement program to include the extension of gas mainlines to new parts of AGL's service area as a potential catalyst for growth. The PSC recently initiated a second phase of the case to review AGL and Scana Energy's petition to include new mainline construction in the program (see Matters, 10/23/09).

As of September 30, 2009, Scana Energy was serving more than 440,000 customers, maintaining its position as the second largest natural gas marketer in Georgia with an approximate 30 percent market share.

Scana has not yet filed its 10-Q.

Reliant, CenterPoint Receive Stimulus Funds for Smart Grid Projects

Reliant Energy was awarded nearly $20 million by the U. S. Department of Energy, under DOE's smart grid stimulus grant program, to install a suite of smart meter products which will enable customers to manage their electricity usage, promote energy efficiency, and lower overall energy costs.

Among other things, Reliant will use the funds to offer discounted in-home electricity monitoring devices to customers to track usage and price, and to facilitate communication with home appliances.

Reliant will offer various time-based products in conjunction with the devices, and will also provide weekly e-mail updates on electric usage to customers.

CenterPoint Energy received $200 million from DOE for use in its current territory-wide advanced meter deployment. Of interest to the retail market is that the grant will accelerate completion of deployment by two years (completion in 2012 instead of 2014), and will also defray a sizable portion of the $640 million capital investment charged to REPs (and typically passed through to customers). How the grant will impact the specific monthly AMS surcharge has not yet been determined.

N.Y. DPS Staff Opposes Suggestions for Utility-Owned Tier in RPS

The development of a New York RPS tier for the construction of utility-owned resources should not be pursued due to comparatively high costs, New York Department of Public Service Staff said in an RPS Mid Course Report.

As only reported in *Matters*, Central Hudson had suggested establishment of a new "Utility-Sited Tier" within the RPS that provides utilities with the opportunity to construct, own, and operate small, utility-scale solar PV projects in their service territories (Only in Matters, 11/18/08).

Staff studied the development of such a utility-sited tier and found that the utility-sited tier approach, "would be much more expensive than the Customer-Sited Tier approach," in promoting such small-scale installations. The utility-sited tier costs are inherently higher, Staff said, due to the need to pay the participant cost of $8/watt instead of an incentive cost of $3/watt or less, and the utility profit or "return" on the investment that includes income taxes. "Given the Commission's policies on utility ownership of generation and the substantially higher unit cost of a Utility-Sited Tier, this option is not recommended," Staff said.

Staff also recommended maintaining the current centralized procurement method using NYSERDA, rejecting calls for a model which places compliance obligations on individual LSEs.

"Where each load-serving entity must individually comply with RPS standards, each load-serving entity must compete for the available pool of renewable attributes. This likely increases the cost per attribute as bidders compete with each other," Staff noted. NYSERDA, acting as a single primary purchaser of attributes, eliminates the competition for attributes among buyers, avoids utility-specific penalties for not meeting targets, and creates a market in which sellers compete to supply the attributes, Staff said.

"In addition, a load-serving entity model might require energy service companies to alter their business models to comply," Staff noted.

"Transitioning now to a load-serving entity model would increase the cost of the RPS program and require additional features, such as trading and penalty mechanisms, further increasing the complexity and costs of the program and adding administrative delays," Staff concluded.

While use of a centralized procurement does not require the development of a REC tracking system, Staff said that efforts to develop a more automated and certificate-based tracking system should continue, in order to accommodate some certificate trading in the voluntary market.

"[A]doption of a certificate trading system may, at the very least, lead to new forms of certificate trading within New York that would be beneficial to load-serving entities and marketers seeking to offer green power to their retail customers, and generators seeking a source of revenue to support their renewable resource investments," Staff said.

Staff also concluded that the vintage for RPS eligibility should not be changed from the current January 1, 2003, to ensure the maximum amount of potential supply, and to avoid creating investor uncertainty. However, Staff said that NYSERDA should clarify its economic development bid evaluation criterion to explicitly require a showing of incremental economic benefits associated with a given bid -- in order to make clear that the Commission remains favorably disposed toward new projects.

NYSERDA should be given flexibility, in consultation with Staff, to schedule Main Tier solicitations on a more regular basis, Staff added. Regularly scheduled RPS solicitations should lead to greater developer and generator certainty, which can in turn lead to better planning and lower overall costs, Staff noted. Additionally, eliminating the requirement of prior Commission approval would give NYSERDA the ability to respond to changing circumstances in a timely manner, Staff said.

Furthermore, NYSERDA should be allowed to use unencumbered funds made available from bidders whose projects do not perform, rather than needing Commission approval to reuse such funds, Staff recommended.

Staff generally favored keeping the current 10-year contract length, but said that the Commission should also allow parties some flexibility consistent with the goals of the RPS program, including the opportunity for longer contracts. Parties, Staff argued, should have the opportunity to make bids that act as hedges to offset future increases in wholesale commodity prices, such contracts for differences. Allowing contracts in excess of 10 years might provide lower upfront costs, thereby reducing short-term bill impacts, Staff noted.

Fuel-based renewable energy generators (such as biomass) should be allowed to enter 10-year contracts that have an escape clause every two and one-half years so that the generator may drop out of the program if it is unable to secure a continuous fuel supply at a price that supports its fixed-price long-term contract, Staff added.

Staff opposed any artificial geographic location requirement aside from the current deliverability criteria (e.g. proposed carve-outs for downstate facilities) as undermining the efficiency benefits of the central procurement model, and increasing the overall costs of the RPS program.

Staff also recommended devising reference prices for small-scale resources (such as small-scale hydro and biogas), with all developers of such resources given Standard Offer contracts on an ongoing basis without the need or ability to compete against others on price terms. Staff said that a Standard Offer is needed because such small scale resources have unit costs well below large wind projects bid into the Main Tier, and thus are able to, "extract significantly higher profits in proportion to those that can be obtained by the large wind developers that face real competition."

"By subjecting some technologies to a standard offer process, greater technology diversity can be promoted and anti-competitive results where bidders are few or scarce can be prevented. Allowing for a standard offer for technologies with lower costs than wind power can reduce the overall average price per MWh paid for attributes and maximize the use of Main Tier funds," Staff said. Staff said that the capacity of such small-scale resources is minute enough that a Standard Offer open to all developers would not deplete Main Tier funds.

Briefly:

Tradition Seeks Illinois Broker License

TFS Energy Solutions (Tradition Energy) applied for an Illinois broker license.

GDF Suez Signs Jeddo Coal

GDF Suez Energy Resources NA said it has signed Jeddo Coal Company, operator of an anthracite coal mining facility in Northeastern Pennsylvania (PPL service area), to an electric supply contract. Suez has been providing demand response solutions to Jeddo Coal since 2008.

FirstEnergy ... *from 1*

As noted during last quarter's earnings call, Solutions aggressively focused on its affiliate Ohio territories to, "kind of take first mover advantage where they're used to our name," Clark said. Clark reported that because of the success experienced in Solutions' aggressive initial focus on its affiliated Ohio territories, it now has time to start moving with greater presence into other areas, including southern Ohio, Western Pennsylvania, and Illinois.

Total FirstEnergy Solutions competitive retail sales in the quarter increased to 3.5 million MWh from 3.0 million MWh a year ago. Competitive retail sales in its Ohio affiliated territories were 1.9 million MWh; sales at Penn Power were 419,000 MWh, and sales in unaffiliated areas were 1.1 million MWh.

Year-over-year growth in total competitive retail sales was primarily from sales in non-affiliate service areas, which increased from 548,000 MWh a year ago. Solutions' Ohio competitive retail sales were comparable with the year-ago total, but up from zero at the end of the second quarter of 2009 (the Q2-09 numbers reflected the termination of several government aggregation contracts at the end of 2008).

Net income at FirstEnergy Solutions from competitive energy services was $183 million for the quarter, versus $164 million a year ago. The category includes unregulated generation and commodity operations, including competitive electric sales, and generation sales to affiliated electric utilities (excluding transitional provider of last resort generation service by FirstEnergy's Ohio utilities). The gains mainly came from items categorized as other income, such as investment income. FirstEnergy has not yet filed a 10-Q to further breakdown the gains.

Solutions' generation gross margin was down by about $97 million versus the year-ago quarter primarily due to lower sales volumes in Ohio, which was driven by the effects of the economy, lower wholesale market prices, and mild weather.

IDT ... *from 1*

value-generating customers.

The reorganization, however, significantly slowed customer acquisitions during the fourth quarter resulting in a net loss of approximately 17,000 meters versus April 30, 2009. IDT's total number of meters served on July 31, 2009 was approximately 397,000, comprised of 169,000 gas and 228,000 electric meters. The total was up 5.6% versus the year-ago total of 376,000, but down from the height of 414,000 recorded as of April 30, 2009.

Given current market conditions and the focus on reducing churn, IDT said that it expects to return to positive net customer acquisitions during the first half of fiscal 2010, although at a rate of growth below that achieved during the first half of fiscal 2009. In particular, Courter said that while IDT does not expect to grow its New York customer base at the same level as it did in the middle quarters of fiscal 2009, slower New York growth will be offset by expansions into other jurisdictions, though Courter did not cite specific markets. As only reported in *Matters*, IDT has pending electric and gas applications in Pennsylvania. IDT has also cited New Jersey and (depending on regulatory developments) Maryland as areas for expansion.

Selling, General & Administrative expenses in the fourth quarter of 2009 were down 40% at $4.3 million versus the year-ago quarter, reflecting the restructuring of the sales force and attendant lower sales costs.

Revenues for the fourth quarter of 2009 were $37.0 million versus $75.5 million in the year-ago quarter. Bad debt in the fourth quarter of 2009 was not meaningful, compared with bad debt of $400,000 a year ago.

For fiscal 2009, IDT energy reported income from operations of $45.4 million, up from $6.0

million a year ago. Gross margin for fiscal 2009 rose sharply to 27.3%, up from 11.2% in the prior year, from the previously cited positive market conditions.

Revenues for fiscal 2009 were $264.7 million versus $248.9 million a year ago. Bad debt for fiscal 2009 was $1.0 million, up from $700,000 a year ago.