Energy Choice Matters

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Integrys Energy Services Won't Serve 5,500 GWh of Prior Forward Contracted Volumes

Integrys Energy Services narrowed its fourth-quarter net loss in 2009 to $3.6 million from $27.6 million a year ago largely due to the partial recovery of non-cash accounting losses related to derivative fair value adjustments recorded in prior periods and lower operating expenses, partially offset by restructuring costs.

For the year fiscal 2009, Integrys Energy Services posted net income of $2.5 million, reversing a net loss of $61.5 million a year ago.

For the fourth quarter, realized retail natural gas margin was down slightly at $17.0 million versus $17.2 million a year ago. Physical retail gas sales were down at 39.2 Bcf from 84.0 Bcf, largely due to the sale of the Canadian operations. Retail gas realized unit margins were higher at 43¢/Dth versus 20¢/Dth in the fourth quarter of 2008.

Fourth quarter realized retail electric margins were lower at $15.8 million versus $18.5 million a year ago. Retail electric volumes declined to 3,361.7 GWh from 4,019.0 GWh in the year-ago quarter. Realized retail electric unit margins were higher at $4.70/MWh versus $4.60/MWh.

For 2010, Integrys Energy Services is projecting retail margins of $0.39/Mcf and $4.81/MWh.

Integrys Energy Services CEO Mark Radtke said that the retailer has about 10.8 million megawatt-hours of its 16.5 million megawatt-hour forecast of 2010 retail electric sales currently contracted. Radtke said that at the end of 2009, Integrys Energy Services had an additional 5.5 million megawatt-hours in its forward book which it will no longer be serving, related primarily to Texas which the marketer is exiting (Only in Matters, 2/18/10).

Radtke said that organic growth, and not acquisitions, will bring Integrys Energy Services up to

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BGE Files for Pilot Electric & Gas Low Income Discount, Credit Programs

Baltimore Gas and Electric Company filed with the Maryland PSC two proposed pilot electric and gas programs to make energy bills more manageable for limited income residential customers, at least one of which would be available to customers regardless of commodity supplier (ML# 121669).

The first pilot is a Graduated Rate Discount program that will provide usage-based bill discounts to limited income customers in order to determine if such discounts will provide an incentive to limited income customers to conserve energy and encourage more on-time bill payment, resulting in a more manageable energy bill. BGE anticipates that the pilot will begin in July 2010 and continue through April 2011.

Under the Graduated Rate Discount program, BGE will enroll approximately 600 limited income customers, divided into two groups. The first test group will receive bill discounts according to monthly usage. The second test group also will receive bill discounts, and will be required to request and complete a Quick Home Energy Checkup, which is one of the programs offered under BGE's suite of conservation programs. The following graduated discounts would apply to the total amount (supply and distribution combined) of the customer's monthly bill:

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Briefly:

Glacial Natural Gas Seeks Pa. License

Glacial Natural Gas applied for a Pennsylvania natural gas supplier license to serve all sizes of commercial, industrial and governmental customers in all service areas. As only reported in *Matters*, Glacial Energy Holdings is expanding from solely marketing electricity to adding natural gas, with a pending license application in Michigan and plans to enter the Florida, Ontario and Alberta markets (Only in Matters, 1/21/10).

Md. PSC Opens Case to Review BGE SOS Cash Working Capital Request

The Maryland PSC opened Case No. 9221 to consider Baltimore Gas and Electric's proposal to modify its SOS cost recovery mechanism to allow it to recover an increase in its Type I, Type II, and Hourly Standard Offer related cash working capital requirements (Only in Matters, 2/9/10). Although Staff has interpreted BGE's request as recovering the increased working capital costs through an existing nonbypassable rider, BGE has informed suppliers that its intent is not to recover the charges through a nonbypassable surcharge, though this has not yet been memorialized in an updated filing.

Duke Energy Ohio Files Increased Rates for Balancing Service

Duke Energy Ohio filed tariff revisions with PUCO to increase its Firm Balancing Service charge to \$0.176/Mcf (from \$0.1550/Mcf). Additionally, Duke filed to increase the Enhanced Firm Balancing Service demand charge to \$6.13 per each Dth of the supplier's Maximum Daily Delivery Quantity (versus \$5.94), and the Enhanced Firm Balancing Service commodity charge to \$0.018/Mcf (from \$0.015/Mcf). The revisions reflect changes in the cost of the storage service transportation rate and a decrease in throughput, which are used in the formula to calculate the charges.

FERC Approves Results from Third ISO-NE FCA

FERC accepted the results of ISO New England's third Forward Capacity Auction, which will apply to the 2012-2013 commitment period, dismissing several protests from generators as outside the scope of the case (ER10-186). FERC rejected protests relating to the potential proration of capacity payments to suppliers in NEMA/Boston area (rather than allowing the proration of capacity) since the issue was not before the Commission in the instant case, and because the Commission has previously rejected the generators' requested relief in a prior order (Matters, 12/15/09). FERC also dismissed the PSEG companies' concerns regarding "excessive" out-of-market capacity as outside the scope of the proceeding.

PUCO to Restore FirstEnergy All-Electric Discount Wednesday

Public Utilities Commission of Ohio Chairman Alan Schriber said Friday that PUCO would move to restore the previous all-electric discounts at the FirstEnergy companies at its Wednesday meeting, followed by a review of long-term solutions. Governor Ted Strickland, who pressured PUCO for the reinstatement, said that, "While First Energy was looking out for its own bottom line, the PUCO acknowledged this issue didn't get the attention it deserved among other considerations and, until yesterday, the Consumers' Counsel failed to stand up for these homeowners."

Nations Power Offering Prepaid Product with Real-Time Pricing in Texas

Texas retailer Nations Power has launched a prepaid and real-time pricing product for customers which takes advantage of the deployment of nearly 1 million advanced meters in Texas. Nations Power is run by CEO Fernando de Agüero, former principal at Catalyst Energy, who had prior stints at AGL and Mirant (Only in Matters, 2/23/09).

Using software developed by SmartGridCIS, Nations Power processes 15-minute usage data from any smart meter, which allows it to provide prepaid electricity with real-time pricing. Nations Power said that it is the first electric provider to implement prepay with real-time pricing anywhere in the U.S.

The billing solution allows customers to pre-pay for power on a daily basis via Nations

Power's website or by phone using a debit card or Nations Power-branded prepaid Visa card, or at one of 110,000 MoneyGram payment locations, such as Wal-Mart and CVS/pharmacy. Regardless of payment option, all methods include a convenience fee of $4.95, per Nations Power's website.

Customers can also view their consumption, payment, and communications history on Nations Power's website.

When customers have about seven days of prepaid electricity remaining, Nations Power will send customers a notice via text message, email or automated phone message.

A customer can enroll with Nations Power electric service with an initial $50 payment versus the $100-300 required for some other prepay companies. Nations Power said that its prices are approximately 30-40% lower than prices offered by prepaid providers using bill estimation to set monthly bills.

Pepco Energy Services Net Income Flat

Pepco Energy Services reported net income of $40 million for 2009, versus net income of $39 million for 2008.

The benefit of lower purchased supply costs was mostly offset by higher interest and other expenses primarily associated with credit and collateral facilities, as well as a pre-tax impairment charge of $4 million, reflecting the write off of all goodwill allocated to the retail supply business, and a pre-tax charge of less than $1 million related to employee severance expenditures associated with the wind down of the retail supply segment.

Pepco Holdings affirmed that it expects the retail supply business to remain profitable through Dec. 31, 2012, based on its existing contract backlog and its hedge position, with minimal losses beyond that date. As of December 31, 2009, Pepco Energy Services' estimated retail electricity backlog was approximately 20.1 million megawatts for delivery through 2014.

Operating income for the retail supply portion of Pepco Energy Services was $88 million for 2009, on $2.3 billion in supply-related operating revenues. For all businesses within Pepco Energy Services, operating income was $89 million for 2009, versus $56 million a year ago.

Gross margin from the retail energy supply side of the Pepco Energy Services business (including its generation) was $148 million for 2009, up from $98 million a year ago, due to lower electric and gas supply costs, lower Reliability Pricing Model capacity charges, and higher RPM capacity revenues. For the fourth quarter of 2009, retail supply gross margin was higher at $35 million, versus $26 million in the year-ago quarter, on the same factors.

Pepco Energy Services' retail electric sales were 3,780 GWh for the fourth quarter of 2009, versus 4,912 GWh a year ago. Retail electric sales for the year 2009 were 17,787 GWh, versus 20,117 GWh a year ago.

Net income for 2009 at Conectiv Energy was down at $15 million versus $122 million for 2008 due to significantly reduced spark and dark spreads, and well as hedging-related impacts.

For the year, Conectiv gross margin from Merchant Generation and Load Service was $183 million, down from $354 million a year ago, driven by lower generation output and lower spark spreads and dark spreads, and decreased mark-to-market and settled gains on derivative instruments.

For the year 2009, Conectiv gross margin was $6 million for Physical Energy and Ancillary Services, negative $26 million for Fuel & Power Hedges of Generation Activities, $199 million from PJM Capacity Margin for Generation Activities, and $5 million for Load Service and Load Hedges.

For the fourth quarter of 2009, Conectiv gross margin from Merchant Generation and Load Service was $49 million, versus $41 million a year ago, due to higher capacity revenue resulting from higher capacity prices and a lower of cost or market adjustment to fuel inventory, partially offset by lower margins on default electricity supply contracts and lower generation spark spreads and dark spreads.

Conectiv gross margin from Energy Marketing was $43 million for the year (versus $53 million a year ago), and $8 million for the quarter (versus $13 million a year ago).

Solomons: Residential Customers Not Seeing Total Benefit from Texas Deregulation

Texas residential consumers are not really seeing the total benefit of electric competition, Texas House State Affairs Committee Chairman Burt Solomons said before a *Dallas Morning News* panel on deregulation last week, a transcript of which was made available by the *Morning News*.

"They're seeing some benefits, but they're not seeing the total benefit of deregulation yet," Solomons said, in describing deregulation as, "working better than most people think it is, but it's not everything the industry would say it is."

"People who pay, write a check every month, and say, oh my God, this just seems like it's worse and worse every summer," Solomons noted, although Solomons added that this past summer was a little bit better.

In particular, Solomons noted that, for consumers, it seems that market prices tend to go up very quickly, but that prices come down very slowly for the residential consumer.

Solomons said that he believes the Sunset Advisory Commission is going to review the PUCT's relationship with consumers, and whether the PUCT has the tools to respond with urgency to deceptive trade practices and other problems.

"I think consumers need to be sure that, in perception [and] in substance, that the PUC and the state government have policies in place that ensure that when players are involved in the marketplace are stepping out of the lines on a variety of issues, whether it be pricing or just contract terms or whatever, that the PUC and state government and the policy of government, is to at least, within that range of letting the market work, that we step in fairly quickly, [and that] we ensure that we punish the bad actors in the business," Solomons said.

"It is too easy in my opinion, and I think a number of legislators' opinions, for bad actors in the system, who have stepped outside of the sidelines more than once, in fact numerous times, to be able to affect pricing or affect fair terms," Solomons added.

Among other things, Solomons favors legislative changes so that penalties levied by the PUCT can be used for restitution, as opposed to going into the general fund.

CenterPoint Competitive Marketer Earnings Lower on Wholesale Market Conditions

CenterPoint Energy's competitive natural gas sales and services segment reported operating income of $21 million for the fourth quarter of 2009, compared to $26 million for the same period of 2008, due to reduced locational and seasonal price differentials, partially offset by lower operation and maintenance expenses.

For the year 2009, the competitive energy services segment also posted operating income of $21 million, versus $62 million for 2008, on lower wholesale opportunities and a reversal in year-ago mark-to-market gains, partially offset by a lower write-down of inventory to the lower of cost or market (LOCOM) in 2009.

Excluding the mark-to-market and LOCOM items, the energy services business reported income of $50 million for 2009, compared to $79 million for 2008, due to reduced basis spreads on pipeline transport opportunities and an absence of summer storage spreads.

The negative impacts were confined to the wholesale business as the retail side of the business is "doing well" and continuing to grow, said CenterPoint CEO David McClanahan. The energy services business ended 2009 with 11,200 customers, up from 10,900 as of September 30, 2009, and 9,800 as of December 31, 2008.

Throughput for the competitive segment was 134 Bcf for the fourth quarter (versus 136 Bcf a year ago), and 504 Bcf for the year (versus 528 Bcf a year ago). Revenue from competitive energy services for 2009 was $2.2 billion, versus $4.5 billion a year ago.

CenterPoint said that its Houston electric utility added over 29,000 customers in 2009, a growth rate of almost 1.5%.

Mirant Fourth Quarter Adjusted Earnings Higher on Proprietary Trading

Mirant reported a net loss for the fourth quarter of 2009 of $104 million, versus net income of $593 million a year ago, on a $207 million impairment charge related to the Potomac River generating station, plus the absence of unrealized gains, principally on hedges, of $568 million in the 2008 quarter.

Excluding the impairment charge and unrealized hedging impacts, adjusted income from continuing operations was higher at $110 million, versus $77 million in the fourth quarter of 2008. The quarter over quarter change resulted principally from higher realized gross margins, particularly from proprietary trading.

For the fourth quarter, gross margin from energy, which includes proprietary trading and fuel oil management activity, was higher at $103 million versus negative $13 million a year ago, mainly due to gains in proprietary trading and fuel oil management activity. Contracted & capacity gross margin increased to $148 million for the quarter, from $141 million a year ago, on higher capacity prices in the Mid-Atlantic. Gross margin from the realized value of hedges increased $4 million from the year-ago period to $122 million.

For the year 2009, net income was $494 million versus $1.27 billion a year ago. Adjusted income from continuing operations for 2009 was $594 million for 2009, versus $517 million for 2008.

During an earnings call, CEO Ed Muller said that asset acquisitions remain on Mirant's "radar screen," but said that Mirant will not pursue assets just because it has a large amount of excess cash.

Muller also reiterated that reserve margins in PJM East will fall below the minimum target sometime in the latter part of 2012. "It may seem strange to talk about it in this economic environment, where other than storm-related outages, no one is particularly worried about demand exceeding supply, but the economy will recover. It is showing signs of recovery ... This remains worrisome for the sector. It remains ultimately attractive for an incumbent like us," Muller said.

Blumenthal Says DPUC Must Investigate Suppliers' Renewable Content Claims

Connecticut Attorney General Richard Blumenthal has asked the DPUC to, "investigate the validity of claims by electric suppliers and generators about their reliance on renewable energy sources."

Blumenthal said that several suppliers market their products as exceeding the state's RPS, but said that the DPUC does not investigate such voluntary renewable products absent a complaint.

However, in its most recent decision on annual RPS compliance, the DPUC instituted a reporting requirement obligating suppliers to provide information showing they procured sufficient RECs to meet their voluntary renewable plans in addition to their RPS compliance (08-09-15, Only in Matters, 11/16/09).

The DPUC said that it is aware of two suppliers actively marketing residential products with renewable content in excess of the RPS: ConEdison Solutions and Viridian Energy. The Department has verified the renewable content claims of both suppliers. The DPUC said that it cannot address claims by third-party sales agents not regulated by the Department.

In other Connecticut developments, Energy and Technology Committee Co-Chair Vickie Nardello is expected to again introduce legislation this week, possibly today, to eliminate mass market choice and institute a state power authority. Similar measures have failed each of the past two years.

FERC Approves Removal of MISO Dispatch Bands

FERC approved the Midwest ISO's request to remove the Dispatch Bands and related provisions of its tariff, which MISO said have been disabled more than 60% of the time during dispatch intervals since the launch of the Ancillary Services Market (ER10-394).

The result of disabling Dispatch Bands so regularly is a disproportionate exemption of resources from Excessive Energy and Deficient Energy (EXE/DFE) Deployment Charges and

Excessive Energy Calculations that would have otherwise been applicable to such resources, MISO said.

In accepting the proposed removal of the Dispatch Bands, FERC dismissed a protest from RRI Energy, who had argued that the removal will increase a resource owner's exposure to payment of Excessive/Deficient Energy charges by restricting the resource owner's ability to communicate its current operating parameters to the Midwest ISO (Only in Matters, 12/29/09).

FERC said that, due to the disproportionate exemption of resources from Excessive Energy and Deficient Energy Deployment Charges, "the discontinued use of the Dispatch Bands option appears to be necessary until Midwest ISO develops sufficient capability to use Dispatch Bands through, for example, a 'look-ahead' tool."

The Commission also accepted MISO's proposal to expand the Tolerance Band from (+/-) 4% to (+/-) 8%, as well as raising the Tolerance Band maximum from (+/-) 20 MW to (+/-) 30 MW, due to elimination of the Dispatch Bands. Though FERC rejected the premise that a modestly larger Tolerance Band will cause generators to not comply with their dispatch orders and therefore require more reserves to be acquired, the Commission did direct MISO to evaluate, eight months after implementation, the impact of the increase in the Tolerance Band threshold to 8%.

Integrys ... *from 1*

its 16.5 million megawatt-hour goal, citing the Illinois market – where Integrys Energy Services has "significant share" – as one of its growth areas. Additionally, Radtke said that Integrys Energy Services has a growth play in the mid-Atlantic and New England markets where Integrys Energy Services has only recently become active, and is in the early stages of growth.

BGE ... *from 1*

Total Monthly Usage	Bill Discount
Electric	
0 - 500 kWh	40% discount
501-750 kWh	30% discount
751-1000 kWh	20% discount
1001-1500 kWh	10% discount
Greater than 1500 kWh	$15 credit
Gas	
0-40 therms	40% discount
41-60 therms	30% discount
61-80 therms	20% discount
81-120 therms	10% discount
Greater than 120 therms	$10 credit

The discounts will be available to income-eligible customers regardless of whether they obtain their commodity from a competitive supplier or from BGE. Competitive suppliers will be paid the amount billed (subject to a purchase of receivables discount), and the Graduated Rate Discount will be competitively neutral, BGE said.

BGE's second proposed pilot would test changes to the Customer Assistance Maintenance Program (CAMP), which provides bill credits to customers enrolled in the Utility Service Protection Program (which provides budget billing and termination protection). To qualify for the Utility Service Protection Program, a customer must qualify for a state energy assistance program, either the Electric Universal Service Program (EUSP) or the Maryland Energy Assistance Program (MEAP). While the EUSP is available only to bundled electric customers, it's unclear whether the MEAP program, which provides one-time grants in the heating season, includes the same restriction. Unlike in its discussion of the Graduated Rate Discount, BGE did not address the competitive neutrality of the Customer Assistance Maintenance Program pilot.

BGE's Customer Assistance Maintenance Program pilot would include 300 customers, divided into three groups who would either (1) receive monthly credits at twice the amount of today's credits; (2) receive the current credits, but also receive telephone-based "case management" services by an outside agency;

and (3) receive both double the monthly credit amounts and the case management services.

BGE said that the current credits of $5 to $12 (depending on income level) were set in 1993, and may be too low given today's energy prices to facilitate their original intent of reducing arrearages by tying receipt of the credit to timely payments. The pilot will test whether increased credits, or phone calls about arrearage management programs, will better reduce bad debt.

In 2009, the average on-time payment record for CAMP-eligible customers amounted to 33.3 percent. This means on average CAMP customers paid late (or not at all) about 66.7 percent of the months in 2009, BGE said.