Energy Choice Matters

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Massachusetts Mass Market Takes a Hit with Approval of NSTAR Green

The Massachusetts DPU imploded the notion of "basic" utility service by accepting the value-adding NSTAR Green program as beneficial to customers and consistent with statute and regulations.

"The proposed wind contracts not only provide basic service customers with a greater level of price stability, but they do so at a cost that is likely to provide net savings relative to continued reliance on only shorter-term procurements that will be primarily indexed to regional electricity market pricing," the DPU found.

The Retail Energy Supply Association, in pre-filed testimony, had argued that approval of NSTAR Green would, "virtually assure that no suppliers will enter the residential and small commercial market in the Commonwealth because they cannot compete with NSTAR on a level playing field."

But the Department agreed with NSTAR that the proposed wind contracts will act as a hedge against the volatility of basic service prices, and will likely have a dampening effect on prices.

Such price stability is appropriate, "in light of the current and potential future lack of competitive options available to smaller customers," the DPU explained.

The DPU, citing ISO New England data, noted that it is "reasonable" to conclude that in many of the hours that the wind resources produce electricity, the applicable electricity spot market price will be based on natural gas prices, which have been rising and increasingly volatile over the past several years.

"Consequently, the fixed-price nature of the proposed long-term contracts should provide some degree of protection to basic service customers against wholesale electricity price volatility," the DPU reasoned.

"As such, the Department concludes that fixed-price long-term contracts with renewable resources, such as the wind contracts proposed by the Company, can serve as a useful tool to establish more stable basic service prices, and do not necessarily shift risk from wholesale suppliers to customers."

Although NSTAR's analysis of the contracts' costs, "is admittedly presented using more highly

... Continued Page 5

NRG Sees Perfect Storm Pushing Natural Gas Higher this Summer

Summer is the generation industry's "Christmas season," and NRG Energy CEO David Crane sees potential for a significant gain this summer, due to a "perfect storm" of bullish signals.

Crane pointed lower gas storage inventories from late cold spells and Independence hub supply disruptions, the prospect of hot early summer weather or an active Gulf hurricane season, and LNG pricing as supporting higher natural gas prices. It is highly unlikely that spot LNG cargoes will keep the lid on pricing this summer, as they did last year, due to higher spot prices for LNG in Europe and Asia, Crane explained.

That has made NRG a "double bull" on natural gas - seeing higher prices both in the short-term and long-term.

Crane expressed that the outlook for rising heat rates and capacity prices is, "generally in the right direction," even though out-year heat rates have compressed substantially over the past few months and New York capacity payments have dropped as a result of regulatory changes (such as mitigation

... Continued Page 5

Surges and Circuits

A weekly review of what's up and down in energy markets.

***Pushed to Monday due to voluminous news*

Reliant Still Battling ERCOT Mass Market Churn

Reliant Energy lost 32,000 residential customers in ERCOT during the first quarter, it reported during an earnings call.

The churn was higher than expected in the quarter, though ERCOT mass market competition, especially for residential customers, continues to intensify, COO Brian Landrum noted.

Reliant is increasing its media and channel spending to stem the churn, he reported.

The Houston-based REP is also to roll-out its "Smart Energy" mass market products this summer, including products that will prompt customers to shift their usage from peak hours (Matters, 2/27/08).

Reliant expects a "substantial" number of customers to switch to one of its Smart Energy products during the rest of the year, CEO Mark Jacobs forecast.

An early response from Reliant to the increased competitive intensity has been its summer savings product (Matters, 4/22/08), which has seen a, "strong response."

In part because of the 24-month summer product, about half of Reliant's mass market business is still on term contracts, rather than a month-to-month deal.

Reliant is still evaluating a mass market play in New York, Landrum reported.

Reliant's large C&I business is performing well, as expected, executives told investors.

Although RPM auctions have attracted some 10,000 MW of generation, most of it isn't new build, Jacobs reported. Much of the total is comprised of units that were due to be mothballed but elected to stay in operation, mothballed units that have returned to service, and demand response.

Jacobs expects that current economics in PJM East will allow some new build generation. But PJM West prices are still below new entry economics, he reported.

Reliant quarterly earnings rose to $377.2 million from $258.7 million a year ago, driven by hedging and higher wholesale margins.

CenterPoint Proposes Early Deployment of Smart Meters Funded by REPs

CenterPoint Energy asked the PUCT to approve a program, called the advanced meter information network (AMIN), which would allow REPs to voluntarily request and fund advanced meter installation ahead of CenterPoint's Advanced Metering System (AMS) deployment plan (docket 35620).

The accelerated, REP-driven AMIN plan would allow retailers to begin obtaining market data during the summer of 2008 (assuming an uncontested, administrative proceeding at the PUCT) and summer of 2009, before advanced meters are likely to be installed under CenterPoint's AMS schedule.

Obtaining customer usage during those summer periods would foster a mature market for advanced metering, and would permit REPs to test new products and offerings before AMS deployment.

Limited cash flow and uncertainty about market maturity constrain both the commencement and pace of CenterPoint's AMS deployment.

The REP-funded AMIN meters would not currently meet the PUCT's minimum functionality requirements under Substantive Rule 25.130(g), as the functionality contemplated in that rule requires a completed system. Initially, the AMIN meters would support interval data, on-demand readings and remote connection/disconnection.

The AMIN meters are capable of full AMS functionality but require the support of communications and back office systems to provide more advanced functionality, such as Home Area Network (HAN) and demand response activities, gathering metered data and providing access to that data in a data repository. REPs, however, can request to fund procurement, design, implementation, and/or integration of additional, different, or accelerated functionality.

REPs would be reimbursed for the AMIN infrastructure only if CenterPoint proceeds with AMS and receives cost recovery. REPs would be reimbursed at the lesser of the amount advanced by the REP, or the amount CenterPoint incurred under its AMS Deployment Plan. Reimbursement will not include carrying charges or interest charges.

CenterPoint would retain ownership of all meters and any other equipment or systems deployed pursuant to the AMIN plan. The AMIN offer would be available to all REPs on equivalent terms.

Now FERC Too Deferential to States, Congress Says

After the uproar of certain congressional delegations over FERC's once-proposed Standard Market Design as not deferring to state policy goals and regional variation, we have to chuckle a bit at certain members of Congress now raking FERC over the coals for actually deferring to state polices and refraining from imposing a national, pre-emptive rule on all states.

That surreal scenario was played out yesterday as FERC commissioners were forced to defend their cross subsidization polices before the Senate Energy and Natural Resources Committee after a GAO report claimed FERC's polices were too lax, though the report could not cite a specific case of cross subsidization occurring.

FERC Chairman Joseph Kelliher explained that the Commission's auditors already follow a risk-based approach for selecting holding company audit candidates for examination of their affiliated transactions, and the Commission constantly assesses and reassesses its audit resources to carry out the audit priorities in the annual audit plan.

FERC hasn't created a broad, national policy for ring-fencing, Kelliher explained in reply to questions from Sen. Maria Cantwell, D-Wash., because such an inflexible policy could pre-empt state merger conditions and would have created, "unnecessary conflict between federal and state regulators."

Instead, FERC reserves the right to pursue ring-fencing or other alternatives where states lack adequate merger review or have otherwise not protected wholesale customers.

Commissioner Suedeen Kelly, however, argued that FERC, "must do more," as states have not succeeded across the board in protecting consumers from cross-subsidization.

"Not every one of the 50 states needs to adopt ring-fencing specifically, but they should all adopt some proven mechanism to help them better regulate these holding companies and guard the American consumer from cross-subsidization," Kelly noted.

BGE, Files Latest SOS Prices

Baltimore Gas and Electric submitted its latest SOS prices to the Maryland PSC:

BGE

Generation Market Priced Service (¢/kWh)

R	Summer	11.406
	Non-Summer	11.390
RL-2	Summer	
	Peak	15.298
	Intermediate-Peak	9.933
	Off-Peak	8.917
	Non-Summer	
	Peak	13.803
	Intermediate-Peak	11.936
	Off-Peak	10.097
G Type I	Summer	12.463
	Non-Summer	11.602
G Type II	June 1- Aug. 31	15.306
GS Type I	Summer	
	Peak	17.240
	Intermediate-Peak	11.547
	Off-Peak	9.309
	Non-Summer	
	Peak	14.680
	Intermediate-Peak	12.679
	Off-Peak	10.349
GS Type II	June 1- Aug. 31	
	Peak	21.152
	Intermediate-Peak	14.557
	Off-Peak	11.536
GL, P Type II	June 1- Aug. 31	
	Peak	20.427
	Intermediate-Peak	13.933
	Off-Peak	11.508

Briefly:

FERC To Wait for Tower Investigation Results

PJM's complaint against the Tower Companies (EL08-44) will be held in abeyance until FERC's Office of Enforcement completes its investigation, the Commission ruled. PJM has alleged the Tower Companies had manipulated its day-ahead energy and financial transmission rights markets.

ERCOT to Recalculate MCPEs Due to Glitch

ERCOT reported to the PUCT (27706) violations of Protocols and Substantive Rules stemming from delays in posting extracts with information relating to self-arranged energy services and schedules, actual resource output, load and resource output for all entities that dynamically schedule their resources, scheduled and actual load, and aggregated Balancing Energy bid stacks. A database problem caused ERCOT to post incomplete extracts April 21-23 and to hold extracts from April 24-30 due to incomplete information. The incomplete information in the extracts will also require recalculation of the Market Clearing Price for Energy (MCPE), ERCOT reported. ERCOT will restore the MCPEs to their original values and will then recalculate and repost the validated price adjustments once the incomplete information from the affected database is recovered.

Hess Gets Intervenor Status in NSTAR-Mirant Case

Hess may be substantially and specifically affected by NSTAR Gas's proposal to grant a Mirant power plant a greater imbalance tolerance, a DPU hearing officer concluded in granting Hess's motion for intervention (08-GC-1). The hearing officer determined that a reasonable factual dispute exists regarding whether NSTAR's proposal would increase operational flow orders, which would impact Hess's business operations.

PPL Forced to Delay Start of Phase-In Plan

Continued inaction by the Pennsylvania PUC on an all-parties settlement that would create a phase-in option for PPL's 2010 move to market-based rates has prompted PPL to delay the start of the phase-in plan. Originally, the option for residential and small business customers was to start July 1. PPL thinks the program needs to be publicized for at least 60 days to make customers aware of the option to start incrementally paying more for electricity before the expiration of rate caps, to avoid rate shock. The earliest PPL thinks it could now offer the plan is August 1, and the utility noted that delays make the program less effective by compressing the period over which higher costs are spread, and by giving customers less time to earn interest on their advance payments.

PUCT Staff Tweaks CREZ TSP Proposal

The PUCT staff recommended changes to the proposed rule for selection Transmission Service Providers (TSPs) for Competitive Renewable Energy Zones (CREZs). Based on stakeholder comments (docket 34560), Staff favors consolidation of the qualification and selection phases to expedite the selection process. The proposal should also be changed to allow for settlements for TSP selection, staff recommended. Staff also favors changes in the performance phase to lessen uncertainty and risk to TSPs as well as changes to financial requirements so that entities may qualify who have recently included a large capital addition or encountered some other non-recurring event that would have a negative effect.

Dominion Casts Doubt on Demand Response Performance in FCM

Dominion Generation has doubts about all of the demand response committed in the ISO New England Forward Capacity Auction "showing up" and expects higher energy margins as a result, Dominion Generation executive vice president Mark McGettrick told investors on a conference call yesterday. McGettrick noted demand resources make up almost 8% of the first auction and are expected to comprise a "fairly significant" amount in the next auction. Dominion is going to be "very cautious" in terms of closing out its Northeast hedge positions for 2011 and 2012 given its expectation to see non-performance among some demand bidders, until Dominion has clearer picture of what the NEPOOL future markets look like. Dominion Resources first quarter earnings jumped 50% to \$680 million from \$453 million a year ago from asset sales and higher contributions from the merchant generation business.

ConEdison Solutions Acquires Another Energy Services Firm

ConEdison Solutions continued its diversification outside of retail commodity sales by buying Kansas-based energy services provider Custom Energy Services, which had a national network of clients. Previously, ConEdison Solutions purchased energy services firm BGA, and has infiltrated regulated retail markets in Florida and North Carolina as a state-certified energy service provider.

TXU Suspending Disconnects for Certain Customers

TXU Energy is voluntarily suspending disconnects for customers designated as low-income, ill or disabled or who are at least 62 years of age during the summer (July 1 - Sept. 30), and is also offering those customers more flexible deferred payment plans. Those customers will have to pay at least 25% of their bills and accept a five-month deferred payment plan to avoid being shut-off. Customers designated as both low-income and who are at least 62 years of age, or who can show that disconnection of service will cause a person residing at their residence to become seriously ill or more seriously ill, can avoid disconnection of service due to non-payment by contacting TXU Energy and asking for a deferred payment plan that does not require any immediate payment. TXU Energy is also waiving deposit requirements for residential customers who are at least 62 years of age and for all customers with a good record of timely payment.

New Aggregator in Conn.
The Connecticut DPUC granted Collective Energy an electric aggregation license for residential, commercial, industrial, municipal and governmental customers (08-03-15). Collective Energy intends to focus its efforts on serving the, "under represented residential and small business markets," to offer customers clear and simple alternatives to standard service (Matters, 3/21/08).

FirstEnergy Profits Flat
FirstEnergy quarterly income dipped slightly, to $276 million from $290 million in the year-ago quarter as better generation margins were offset by decreased investment income, and increases in other costs.

NRG Bullish ... from 1

plans for pivotal suppliers and changed bidding behavior of competitor generation as part of the KeySpan-National Grid merger) and higher levels of demand response.

NRG is adjusting its hedging price points upward in response to its bullish outlook, although during the quarter it did hedge 28 million MWhs over the next five years, after about a year of virtually no baseload hedging activity by NRG. Still, that only represents 9% of NRG's total baseload capacity.

Although the forward heat rates in ERCOT "look weird" through 2013, NRG Energy expects that it's an overreaction to potential transmission investment and wind power imports that won't be available until 2012 at the earliest, Mauricio Gutierrez, NRG's senior VP for commercial operations told investors. Heat rates have also naturally been compressed by the rise in natural gas prices, he added.

Looking at 2008, ERCOT heat rates have increased significantly, he added, and NRG expects that to be maintained until 2011 or 2012 when transmission to West Texas wind may come online.

Crane reminded investors that when TXU announced plans for 11 baseload coal plants a few years ago, forward heat rates were similarly crushed in years well before TXU could conceivably bring the plants online.

The addition of large amounts of wind may "nick" NRG's baseload assets, but would mainly impact baseload generation off-peak and during the shoulder seasons, Crane noted.

Despite the rosy outlook, first quarter earnings at NRG fell 26% to $38 million from $51 million a year ago, on higher fuel costs and lower margins in the Northeast and ERCOT.

NSTAR Green ... from 1

aggregated representations of wind facility output and energy prices, there is no evidence that it is biased in favor of their conclusions," the DPU found.

The DPU conceded that, in principle, voluntary renewable energy programs that are provided to basic service customers by competitive REC suppliers (such as National Grid's program) may be more compatible with the development of competitive markets for smaller customers than a program that is provided by a distribution company.

"However, in light of the continued lack of an active competitive market for smaller customers, the Department concludes that the proposed NSTAR Green program is likely to offer customers with opportunities and benefits that might not be offered by the competitive market."

NSTAR Green, the DPU explained, is "sufficiently compatible" with the development of competitive options for smaller customers because (1) the program is available only to residential and small C&I customers, who have limited competitive options in the near term; and (2) the program does not limit a customer's ability to switch to a competitive generation supplier, and customers may leave the program at any time.

The DPU rejected RESA's argument that NSTAR Green amounts to a competitive product, since NSTAR (1) is limited to providing the program to customers located in its service territory; (2) cannot change the price without Department approval; (3) does not contractually bind participants to remain in the program for any specified time period; and (4) will not earn any profit on the services sold.

Requiring NSTAR Electric to comply with DPU Standards of Conduct regulations would, "severely undermine the ability of the Company to offer the program," the Department observed.

Although the DPU conceded NSTAR's solicitation for the wind contracts was not widely distributed to potential bidders, the DPU concluded that, "NSTAR Electric's failure to conduct a widely distributed solicitation, while less than ideal, is insufficient grounds to reject the proposed contracts and re-open the bidding process."

As part of a settlement with the Massachusetts Energy Consumers Alliance, NSTAR offered to facilitate choice among competitive REC suppliers by either providing the supplier with monthly consumption data in EDI form, or by adding a line item to customer bills to provide for billing for non-energy, REC-based products. Costs of the line-item billing functionality would have been recovered in the transition charge.

The DPU was "concerned" by NSTAR's $910,000 cost estimate to provide line-item REC billing, and was not convinced the transition charge was an appropriate mechanism to recover such costs.

Thus the Department instructed NSTAR to provide competitive suppliers with EDI functionality instead.

The DPU also disallowed NSTAR from recovering $33,000 in "registration" costs for the Green program, which represent additional costs from answering customer service telephone calls related to NSTAR Green. The DPU excluded cost recovery for those expenses since NSTAR could not adequately track them.

Customers enrolling in NSTAR Green will pay a premium of either roughly 0.85¢/kWh or 1.45¢/kWh more than the basic service price, depending on whether they opt for 50% or 100% green power.

"The DPU's action shows that long term contracts for renewable power are cost competitive for consumers - that is good news for energy costs and for the environment," said Ian Bowles, Massachusetts Secretary of Energy and Environmental Affairs.

But the DPU's decision creates serious structural flaws in the state's market and forces utility customers to subsidize an optional offering, Chris Kallaher, Director of Government and Regulatory Affairs for Direct Energy noted. NSTAR will rely on distribution company assets paid for by ratepayers to market its product, and also can reach all customers though distribution related contacts -- something competitive retailers simply cannot do.

Kallaher stressed that Direct was not going to turn its back on the Massachusetts market, but noted there's a lot of work to do.

While the DPU cited a lack of mass market competition as prompting its decision to allow a utility green product, Kallaher pointed out the Department has eschewed many solutions that would expand mass market choices, such as Purchase of Receivables and a marketer-referral program funded by suppliers, at no cost to utility customers.

The DPU should be pursuing such market enhancements if it is concerned that the market is not giving customers enough products, rather than giving up on the market, Kallaher suggested.

With a fairly favorable default service mechanism (which has been made less favorable in NSTAR's territory through the wind PPAs) that includes twice annual procurements, bad debt is the biggest barrier to greater mass market offerings in Massachusetts. While the lack of disconnect authority for competitive suppliers or POR is not unique to Massachusetts, the DPU also prohibits retailers from collecting security deposits on residential accounts. Thus without POR, competitive retailers do not have any means of recourse to hedge against bad debt in the residential market.