Energy Choice Matters

August 15, 2008

TXU Customer Count Inches Higher As EFH Posts Massive Hedging Losses

Unrealized hedging losses weighed Energy Future Holdings, which reported a net loss for the quarter of $3.3 billion on a GAAP basis, compared with net income of $121 million a year ago, EFH disclosed in a 10-Q. Nearly $3.1 billion of the loss was due to unrealized mark-to-market net losses.

Adjusted operating earnings at EFH totaled a net loss of $251 million for the second quarter, compared to net income of $388 million a year ago. The $639 million decrease was driven by a $393 million (after tax) increase in interest expense driven by financings as a result of the merger, and non-cash depreciation and amortization expenses of approximately $173 million (after-tax) due to the application of purchase accounting.

Lower contribution margin (revenues net of fuel, purchased power costs and delivery fees and realized gains and losses from commodity hedging and trading activities) in the Competitive Electric segment accounted for the remainder of the loss. Margin decreased due to higher purchased power costs from market volatility in May, generation facility outages, and lower retail residential electricity pricing driven by the 15% price reductions implemented in 2007 for certain TXU residential customers.

EFH's Competitive Electric segment (which includes wholesaler Luminant and retailer TXU Energy) posted a loss of $3.26 billion versus net income of $131 million a year ago. Competitive Electric revenues were nearly $2.6 billion.

Net purchases of balancing electricity from ERCOT were 1,236 GWh during the quarter, versus net sales of 302 GWh in last year's quarter. The relatively large amount of balancing energy purchased in the 2008 quarter reflects weather-driven volatility, generation facility outages and

... Continued Page 5

Maryland PSC Investigating Utility Generation Procurement to Fill Reliability Gap

The Maryland PSC opened Case 9149 to investigate the process and criteria for developing and having Maryland electric utilities issue one or more RFPs to obtain additional generation to avoid potential capacity shortfalls in Maryland if certain transmission lines are not completed as currently contemplated by 2011 and 2012.

"This new proceeding will allow us to obtain some insurance for ratepayers against electricity shortfalls down the road," said Commission General Counsel and incoming Chairman Doug Nazarian. "By acting now, we can identify and implement the best possible solution for Maryland ratepayers, rather than waiting and hoping that the markets will solve the problem for us."

The Commission anticipates that the so-called "Gap RFPs" would need to be issued no later than the end of October 2008, with bids due by the end of November 2008, and selections announced in March 2009. "Consequently, the time in which comments and hearings (if any) will be held on this matter will be significantly compressed," the Commission stated.

The Commission asked the IOUs and other stakeholders to comment by Sept. 12 on, among other things, the size, timing and location of the capacity shortfall, and whether it is contained solely within Southwest MAAC and Eastern MAAC. Do only Baltimore Gas and Electric and Pepco need to procure resources, the PSC asked?

The PSC invited comments on how costs would be borne and recovered and how benefits would be allocated, including the distribution of costs/benefits among customer classes and different

... Continued Page 6

Pa. PUC Compares Today's Prices to Capped Rates

The Pennsylvania PUC released the first of what are to be quarterly comparisons between current market prices and existing capped retail rates, showing the looming increases facing customers in 2010 and 2011 at five of the state's utilities.

The PUC's analysis below shows increases from capped rates to estimated market prices at three recent points in time: as of August 8, 2008, the end of July 2008 and the end of June 2008. The PUC stressed that the analysis is not meant to be a projection of future prices.

Residential

Change as of:	Met Ed	PECO	Penelec	PPL	West Penn	Average
8/8/08	55.5%	11.6%	48.2%	40.0%	60.1%	43.1%
7/30/08	54.9%	16.6%	51.1%	41.4%	68.6%	46.5%
6/27/08	81.0%	34.5%	78.7%	67.4%	104.0%	73.1%

Commercial

Change as of:	Met Ed	PECO	Penelec	PPL	West Penn	Average
8/8/08	68.5%	11.9%	57.6%	54.4%	70.6%	52.6%
7/30/08	74.6%	18.3%	59.6%	51.9%	83.6%	57.6%
6/27/08	110.9%	41.7%	95.7%	85.4%	126.4%	92.0%

Industrial

Change as of:	Met Ed	PECO	Penelec	PPL	West Penn	Average
8/8/08	47.2%	18.4%	71.3%	55.7%	81.4%	54.8%
7/30/08	72.2%	25.1%	75.9%	52.9%	95.0%	64.2%
6/27/08	109.4%	51.8%	119.8%	88.3%	143.8%	102.6%

The next report is due in January 2009.

"In my view, the Competition Act needs to be revisited and revised so as to reduce our reliance on the wholesale market that is producing these unnecessarily high prices," Commissioner Tyrone Christy predictably said.

The PUC expects that large industrial and commercial customers that acquire their supply from competitive electric generation suppliers will likely be able to secure supply at rates below the prices indicated by its analysis. "Large customers are encouraged to proactively engage competitive suppliers to obtain further estimates for electricity for the post-rate cap period," the PUC said.

REPs, PUCT Need to Do Better Job Publicizing Disconnect Protections, Chairman Says

The PUCT as well as REPs need to do a better job of communicating the extensive existing disconnection protections for customers, Chairman Barry Smitherman concluded as the Commission declined to adopt any emergency disconnect moratoriums at yesterday's open meeting (Matters, 8/14/08).

Among the protections, Smitherman noted that once customers qualify as critical care, REPs, for all practical purposes, will not disconnect critical care customers. Smitherman also pointed to other protections for the ill and disabled, and protections related to heat advisories.

Aside from urging REPs and Commission Staff to boost education efforts related to disconnect protections, Smitherman encouraged REPs not offering voluntary moratoriums (such as those offered by TXU, Reliant, and Direct) to do everything possible to not disconnect customers during the summer.

Commissioner Julie Parsley also noted that low-income assistance agencies typically cannot provide assistance until a customer receives a disconnect notice, creating a catch-22 in that the Commission wants to prevent disconnect notices as much as possible, but such notices are needed to get assistance to prevent disconnection. If the REPs have any ability to work with assistance agencies to verify that customers are in arrears without invoking a disconnect notice, Parsley encouraged REPs to do so.

Smitherman also urged customers who are

extended a deferred payment plan to honor their commitments and not switch REPs until their plans are paid off, suggesting it doesn't seem to be right that the current rules allow customers with large arrears to switch REPs.

Priority Power Earnings Fall, ChooseEnergy.com Sale Completed

Broker-consultant Priority Power Management, owned by Amen Properties, posted net income of $196,000 for the second quarter, down from $623,000 in the year-ago period on increased payroll expenses resulting from the expansion of its sales force. Revenues dipped slightly to $967,000 from $999,000 in the year-ago period. Quarterly operating expenses rose to $1.0 million from $725,000 on a $300,000 increase in general and administrative costs associated with the sales force growth.

Amen completed its sale of online electricity broker ChooseEnergy.com subsequent to the end of the quarter.

ChooseEnergy.com had narrowed its loss for the six months ending June 30 to $32,000 from $113,000 in the year-ago quarter. Half-year revenues were $93,000, up from $73,000 a year ago.

Amen's REP, W Power and Light, transferred most of its customers to Green Mountain Energy after the close of the second quarter (Matters, 7/23/08, 7/22/08), as Amen exits the retailing business.

For the six months ended June 30, W Power posted a loss of $1.2 million on revenue of $5.4 million. That compares to last year's half-year income of $705,000 on revenues of $5.0 million.

PRElectric to Start Selling in ERCOT This Fall

Prepaid REP PRElectric, which was originally certificated in 2004, recently re-completed ERCOT testing and intends to begin serving customers this fall, it disclosed in a PUCT filing regarding REP certification standards (35767).

PRElectric told the PUCT that requiring advanced payments accepted by prepaid providers to be held in a cash-like asset (such as letters of credit), and therefore not available to be used to pre-purchase long-term wholesale power contracts, would have a significant, negative impact on prepaid REPs and their customers.

In other words, REPs should not be required to keep a set amount of assets, but should rather be required to have assets sufficient to cover any potential liabilities they have incurred, PRElectric explained.

For instance, if a prepaid REP receives $100,000 of prepayments from customers, the REP has a $100,000 liability to those customers to provide power. To the extent that a REP purchases 30 days worth of power in an advance contract, the contract itself should be considered an "asset" of the REP for purposes of considering financial responsibility, because exposure to the market is reduced by the amount of power purchased in advance, PRElectric noted.

But if advance contracts are not considered assets, and the REP has to post additional cash assets to cover advanced payments, the REP would essentially be penalized for hedging by raising its costs to cover advance payments relative to a REP not buying forward power, PRElectric claimed.

Such a policy would create a powerful incentive not to purchase power in advance, PRElectric reasoned -- the risky strategy which prompted several recent defaults.

PRElectric also claimed that allowing larger, "allegedly credit worthy," REPs to be exempt from financial requirements would give them an unfair price advantage in the market, and pointed to the recent collapse and/or near collapse of numerous multi-billion dollar businesses as demonstrating that a company's creditworthiness might be temporary or illusory.

Prepaid REPs should be permitted to offer pay as you go plans upon a customer's request, which would require rule changes to permit shorter billing cycles, urged PRElectric. Financially challenged customers often prefer to make smaller, more frequent payments when their financial condition allows, on a weekly or bi-weekly basis, PRElectric said. Such arrangements can better permit budgeting and the avoidance of disconnections by allowing customers to better manage their balance, PRElectric contended.

PUCT Wants Full Record to Define Violation Under PURA

PUCT Commissioners want a full record developed surrounding the definition of a violation in terms of potential market manipulation, and overturned two ALJs' order which granted summary decision and defined the nature of the potential violation in Staff's investigation of Luminant's bidding practices in 2005 (34061, Matters, 7/23/08).

Staff and Luminant disagree on how to define a violation, but agreed that summary decision was appropriate on the pure legal question of that definition to help anchor potential settlement negotiations. Staff believes each MW or MWh improperly bid constitutes a separate violation, but the ALJs had agreed with Luminant that a violation is an act and therefore is determined by the number of bid curves submitted, rather than the amount of energy in those curves.

Commissioners Julie Parsley and Paul Hudson noted that since the case is the first of its type, limiting the record by allowing summary judgment could be detrimental in making a final decision, and concluded that all the facts need to be developed in the record.

Chairman Barry Smitherman agreed, stating the definition question was too important to be determined without a full record, since the definition impacts the potential penalties, which could as little as $610,000 under one definition, but higher than $171 million under another.

Briefly:

Commissioner Hudson Adds Variable Product Questions to Staff Disclosure Proposal

The PUCT approved Staff's proposal for publication regarding revised customer disclosure rules (35768, Matters, 8/14/08). The Commission added four questions to the preamble which were suggested by Commissioner Paul Hudson, including asking stakeholders whether the Commission should allow products for residential and small commercial customers that do not have a method of determining the price from publicly available data or otherwise independent of a retailer's proprietary knowledge. If so, can such products be considered contracts because there may not be a meeting of the minds on price? Hudson also added questions relating to whether there should be added customer protections for variable products, and whether the 50 kW cutoff for a waiver of customer protection rules is appropriate.

D.C. PSC Directs Working Group to Report on Low-Income Discount, Applicability to Shoppers

The District of Columbia PSC ordered the Formal Case 945 Retail Choice Working Group to file a report on an appropriate residential aid discount (RAD) generation subsidy within 30 days. The working group had met in March to discuss funding the RAD discounts through a nonbypassable surcharge on commercial and residential non-RAD customers as proposed by the Office of People's Counsel, but has not reported back to the Commission. OPC had suggested a 28% RAD discount applicable to the residential distribution and SOS transmission and generation rates. Pepco would be explicitly reimbursed from the surcharge for the distribution rate discount, and whoever supplies generation and transmission service to a RAD customer (Pepco, alternative supplier or aggregation supplier) would be reimbursed for the generation and transmission discounts from the surcharge funds. That would create a transparent rate discount that would encourage RAD customers to shop, and allow alternate suppliers to pursue RAD customers, OPC said.

AMIN Plan Not Considered at Open Meeting

The PUCT did not address the settlement on CenterPoint Energy's Advanced Meter Information Network at yesterday's open meeting (35620, Matters, 7/25/08). Staff said they would be certain to have it on the Aug. 28 open meeting agenda.

CREZ Written Order Expected Today

The PUCT indicated a written order on Competitive Renewable Energy Zone selection should be signed by the end of today (Matters, 7/18/08, 33672). Commissioners endorsed Scenario 2 (18 GW) during a July open meeting.

PUCT Revokes Four REP Certificates

The PUCT yesterday revoked the REP certificates of defaulting retailers Pre-Buy

Electric, National Power Company, Sure Electric (Riverway) and Hwy 3 MHP (eTricity).

VarTec Energy to Relinquish REP Certificate

Comtel Telcom Assets d/b/a VarTec Energy asked to relinquish its REP certificate at the PUCT. VarTec has never served customers, and Comtel acquired VarTec through a bankruptcy proceeding (32789).

RI Gov. Suggests Cost-Effective Long-Term Green Contracts for National Grid

National Grid should be compelled to enter into long-term contracts with renewable energy projects, particularly wind farms, to promote green development and lower costs, Rhode Island Gov. Don Carcieri urged in a letter to the PUC. Carcieri had vetoed a bill requiring Grid to procure renewables on long-term contracts because the legislation would have permitted Grid to collect an incentive, and also allowed renewable development outside of the state to satisfy the requirements (Matters, 6/30/08). Carcieri also recommended the PUC impose a cost-effectiveness test on any renewable PPAs. Administration officials reported the governor favors 15-20 year PPAs.

APSouth Scarcity Pricing Region Approved

FERC approved the new APSouth scarcity pricing region in PJM with an effective date of Aug. 13 (ER08-1170, Matters, 7/1/08). FERC's letter order did not address pleas from state regulators requesting that the Commission expedite certain projects in the PJM queue, consider other lower-cost options to relieve congestion or, prior to establishing a new scarcity pricing region, require PJM to demonstrate that it has exhausted other means of mitigating congestion. Such issues were outside the scope of the proceeding, FERC found.

Transmission Customers Press FERC on Entergy TLRs

The continuing trend of the increased number of Transmission Loading Relief (TLR) events at Entergy, and in particular the exponential increase in firm curtailments by over 400%, should prompt FERC to take immediate action to determine the cause of the increased incidence of TLR events and, more importantly, what is being done to address the problem, Occidental Chemical Corporation urged in comments on a report from the Independent Coordinator of Transmission (ER05-1065, Matters, 7/2/08). "[T]he data included in the Report confirm that firm transmission service on the Entergy system has become increasingly uncertain; even if a customer's firm service request is granted, the customer still faces a non-trivial prospect that its schedules will be curtailed at some point during the transaction," several munis added.

EFH ... from 1

congestion effects.

TXU Energy reported a 2.5% increase in customer count year-over-year, from gains in the residential market. Residential customer count grew to 1.90 million by the end of the quarter, up from 1.83 million a year ago. Small business customer count (defined as those under 1 MW) dipped 1.5% to 255,000 at quarter's end, while TXU saw a 22% decline in large business and other customers to 28,000. Total customer count stood at 2.18 million as of June 30.

TXU estimated that it held 36% of the ERCOT residential market at quarter's end, flat year-over-year, and 26% of the business market, down from 27% a year ago.

Residential retail electricity revenues were $937 million for the quarter, up from $841 million a year ago. Small business revenues grew to $274 million while large business revenues rose to $379 million. Total retail revenues were up at $1.59 billion compared with the year-ago total of $1.44 billion.

For residential customers, average revenue per MWh during the quarter was down to $134.94/MWh, versus $138.36/MWh a year ago.

Retail electricity sales totaled 12,382 GWh for the quarter, up 8% year-over-year. Residential volumes were up 14% at 6,941 GWh, while small business volumes grew 7% to 1,867 GWh. Large business and other volume fell 2% to 3,574 GWh.

Average volume per customer during the quarter was 3,665 kWh for residential customers, 7,368 kWh for small businesses, and 116,989 kWh for large businesses and other customers.

SG&A expenses for the combined Competitive Electric segment (retail and wholesale) grew $16 million, or 10%, to $171 million for the quarter. Higher retail customer bad debt expense accounted for $4 million of the increase, while $9 million was due to higher expenses in the retail operations, including marketing and computer system enhancements.

Wholesale electricity sales rose 35% to 12,568 GWh. Wholesale revenues were $1.04 billion, up from $535 million in the prior year's quarter.

EFH will host an analysts call on Aug. 19.

Md. RFP ... from 1

distribution companies.

The Commission's notice requested comments on the appropriate resources eligible under a Gap RFP, and whether procurement should include peaking units, 10- or 30-minute Spinning Reserves, distributed generation, combined heat and power, and/or load management projects.