Energy Choice Matters

November 5, 2008

MXenergy Advocated for Higher Supplier Financial Standards in Conn.

DPUC Staff Recommends No Penalties, Sanctions for Complaints

MXenergy CEO Jeffrey Mayer met with DPUC Chairman Donald Downes and then-Commissioner James Fleming in February to advocate for higher minimum financial standards for competitive suppliers, tougher consumer protection standards, and tougher enforcement, MXenergy disclosed in prefiled testimony concerning the DPUC's investigation into an increase in MXenergy complaints (Matters, 10/30/08).

DPUC Staff is not recommending any fines or other sanctions against MXenergy in connection with the rise in complaints related to late renewal notices or ambiguous welcome letters, provided that MXenergy demonstrates to the Department's satisfaction that its refund calculations and reduced rate offers are appropriate, and absent any additional findings of deficiencies.

MXenergy had previously reported to the DPUC that the complaints stemmed mostly from late renewal letters sent to 1,900 fixed-price customers at United Illuminating, and welcome letters and Third Party Verifications for 7,600 customers on an introductory rate offer at UI and Connecticut Light and Power that did not clearly re-emphasize that rates would move to monthly market rates with the June 2008 billing cycle after the introductory period, as disclosed during the sale.

About 80 customers at UI also erroneously received welcome letters for a 36-month fixed price contract, which DPUC Staff said customers had not requested and which MXenergy subsequently did not honor. Some 63 customers experienced delays of one to eight months in cancelling service and returning to the utility, due to an error in an MXenergy backoffice system.

MXenergy has offered rate relief, in the form of checks or discounted rates, to over 9,000 affected customers, and also extended the introductory pricing period on bills from June to July due to the late

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Trading Losses Weigh PPL Earnings

Net income at PPL's Supply unit, including merchant generation and marketing, fell to $88 million for the third quarter, from $215 million a year ago, due to a "dramatic" decline in energy prices and the lack of liquidity in the wholesale power markets.

Earnings were also hurt by unplanned outages at two coal units (Matters, 8/26/08), higher average fuel prices, higher operating costs and synfuel-related losses.

The lack of liquidity in the power markets prevented PPL from unwinding unfavorable market positions, leading to unrealized losses which depressed wholesale margins. Most of the positions were on the back-end of the power curve where there was virtually no liquidity.

While many financial players such as investment banks have scaled back their power trading due to the credit crisis, thereby decreasing liquidity, PPL COO William Spence did note one positive from the development -- the reduced number of market participants may provide better margin opportunities for wholesale marketing.

PPL expects lower Supply earnings for 2009 due to higher operation and maintenance expenses, higher depreciation, and higher financing costs. It trimmed its outlook for 2010 earnings as well, but insisted that the Supply unit is well positioned, given that 80% of its baseload generation output is hedged for 2010. PPL also has fuel contracts in place that it considers to be significantly below market. CEO James Miller also said it is "unlikely" there will be substantial new generation on the market by 2010, resulting in lower reserve margins, which should boost earnings.

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PPL Amends Post 2010 Procurement Plan to Add Long-Term Contracts for Slice of Load

PPL has amended its default service procurement plan originally submitted to the Pennsylvania PUC for the 2011-2014 period to reflect passage of Pennsylvania Act 129, including use of some long-term contracts.

Originally PPL proposed buying default service load four times a year, beginning in the third quarter of 2009, for 12- and 24-month increments, with some hourly purchases. For residential and small business customers, 90% of the supply was to be acquired through fixed-price contracts of 12 or 24 months, and 10% through hourly purchases in the open market. All of the power for large commercial and industrial customers was to be purchased on an hourly basis in the open market (Matters, 8/29/08).

Under the revised plan submitted Monday, PPL proposed adding provisions to purchase 5% of its default service supply through five-year contracts, and an additional 5% through 10-year contracts. The revised plan would end in May 2013, rather than May 2014.

Advantage IQ Signs 25,000 in Third Quarter

Avista Corp.'s Advantage IQ consulting unit saw lower net income in the third quarter due to its reduced ownership percentage from its acquisition of Cadence Network (Matters, 7/1/08), but signed 25,000 new accounts during the quarter.

Advantage IQ earnings fell to $1.3 million from $2.1 million a year ago. On a year-to-date basis, Advantage IQ processed bills totaling $12.2 billion, an increase of 31%, as compared to the first nine months of 2007.

Quarterly revenues rose to $16.8 million from $12.2 million a year ago. New accounts surged in the quarter on the combined pipelines of Advantage IQ and Cadence with 25,000 new customers. Advantage IQ's combined new accounts in the first and second quarters had been only 11,000. Executives feel "very good" about the pipeline of new accounts for the fourth quarter of 2008 and first quarter of 2009.

The 25,000 new accounts are estimated to result in annual revenues of approximately $1.4 million. The revenue for that size of accounts is smaller than some analysts expected, executives said, because many of the accounts are only for basic services, such as electric and gas utility bill payment processing. Advantage IQ hopes to sell additional services to those new customers going forward. Executives also noted additional opportunities for growth in revenue from existing accounts by selling services from the combined IQ-Cadence suite that weren't offered previously by one of the companies or the other individually.

Advantage IQ has over 6000,000 accounts total, and estimated signing 60,000 to 65,000 customers annually.

Avista said it is planning to monetize at least a portion of its investment in Advantage IQ during the next two to four years, either through an initial public offering or a sale of the business, depending on future market conditions, growth of the business, and other factors. Executives believe revenue needs to hit $100 million to execute an IPO, and believe the target is achievable in two to three years. Year-to-date revenue was $41.7 million, which only reflects one quarter of revenues from Cadence.

Parent Avista Corp. reported net income for the third quarter of $7.4 million, compared to a net loss of $3.9 million a year ago.

FirstEnergy Solutions Sees Fewer Contract Renewals in PJM

Retail generation sales at FirstEnergy Solutions dipped 488 GWh (14%) during the third quarter, reflecting fewer renewals of competitive commercial contracts in the PJM market as well as milder weather.

FirstEnergy Solutions had reported fewer renewals of contracts in PJM during the second quarter as well.

Competitive retail generation sales for the third quarter were 2,961 GWh, down from 3,449 GWh a year ago.

However, FirstEnergy's competitive generation fleet posted record quarterly output at 22,200 GWh -- 3% better than the prior record set in 2006.

Wholesale market electricity sales rose 15% to 7,074 GWh from the higher generation output as well as lower sales to FirstEnergy's utilities from mild weather and lower industrial usage, which freed up power to be sold at higher market prices.

That drove net income from competitive energy services (combined wholesale and retail) to $164 million from $148 million a year ago. Revenue for the competitive segment rose to $1.25 billion from $1.18 billion a year ago.

Net income for FirstEnergy Corp. was $471 million versus $413 million a year ago.

Earnings Up for Ameren Merchant Generation

Adjusted earnings from Ameren's unregulated generation operations rose $8 million to $98 million in the third quarter, on higher realized electric margins due, in part, to improved plant operations.

GAAP earnings, which include unrealized hedging gains, were $108 million for the merchant generation unit, up from $71 million a year ago.

In response to the financial market turmoil, Ameren is cutting capital expenditures for its merchant generation unit by a total of $400 million to $500 million for 2009. Operating and capital expenditures for 2009 are now expected to be $300 million to $400 million below 2008 levels for the unregulated generation unit.

The expenditure reductions will come from changes in planned outage schedules, which Ameren expects to result in approximately 3 million MWh of additional generation from earlier estimates, pushing its projected total to about 33-34 million MWh. Ameren expects that the additional generation will provide an incremental $60 million to $70 million of electric margins in 2009.

Net income for Ameren Corp. fell to $204 million from $244 million a year ago.

EnergyConnect Posts Higher Earnings on Growth in Interruptible Programs at PJM

Income from continuing operations at demand response provider EnergyConnect Group rose to $2.2 million for the third quarter, up from $687,000 a year ago, on higher revenues from participation in PJM's Interruptible Load for Reliability (ILR) program.

Total revenue for the quarter reached $11.6 million, versus $4.7 million from the year-ago quarter. Revenue from the PJM interruptible program tripled to $8 million.

Revenue from economic demand response programs at PJM grew year-over-year from $2.1 million to $3.6 million, but were down versus the second quarter total of $4.8 million due to new rules in the PJM market.

While new customer baseline methodologies for the PJM economic load response program trimmed revenue and participation, executives expect the reforms to be beneficial in the long run, because they will lessen opposition to load response from asset-owning PJM members.

The new baseline methodologies are also more complex, executives said, and preclude manual computations for all but the smallest and simplest loads. EnergyConnect sees a competitive advantage in its automated system for computing such baselines, reporting that several providers have exited the economic demand response market due to the changes. Comverge's exit from the PJM price-responsive market has opened the door for greater market share, EnergyConnect said.

Executives said EnergyConnect is exploring more partnerships similar to its arrangement with Suez Energy Resources NA (Matters, 2/13/08), under which EnergyConnect essentially becomes a "wholesaler" of demand response solutions, which are repackaged and marketed by retail providers. EnergyConnect sees such partnerships as a growing new line of business.

Growth outside of PJM has been slow, but California has seen a "pretty decent" start to operations, executives said, noting the California market is still immature and reliant on utility-sponsored programs.

New York expansion is on hold until EnergyConnect sees improvement in the market, as capacity prices have been depressed. EnergyConnect's New England rollout has been slow, while review of the Texas and Ontario markets will occur after the first of the year.

Operating expenses for third quarter were $3.0 million, up from $2 million a year ago, but a tick lower than the second quarter total of $3.2 million. Higher year-over-year expenses were from sales force expansion.

Briefly:

Pepco Energy Services Reports No Margin Compression

Pepco Energy Services hasn't see a contraction in retail margins, Pepco Holdings CEO Dennis Wraase said in answering an analyst's question on an conference call discussing previously reported earnings (Matters, 11/4/08). Wraase said Pepco Energy Services is building into any new business an appropriate cost to deal with liquidity and other credit pressures that market participants have experienced. Wraase also said Pepco Energy Services is "giving very careful consideration" to margins and profitability as it expands in new markets, but believes that the retailer can continue to receive the gross margins experienced in the past, and that the $3/MWh gross margin range is achievable. Pepco Energy Services reported its load served grew 6% to 4,500 MW.

Renewable Initiative Rejected by Calif. Voters

California voters rejected Proposition 7, the Solar and Clean Energy Act of 2008, which would have raised RPS targets to 40% by 2020 and 50% by 2025. The measure was opposed by IOUs and several environmental groups, such as the Natural Resources Defense Council, because of its rigid structure and exclusion of smaller renewable plants from the RPS, which would have actually hindered renewable development (Matters, 9/12/08). With about 82% of the state's precincts reporting, Proposition 7 was being defeated by 65% of the vote.

NRG Still Reviewing Exelon Offer

NRG Energy said it is taking Exelon's unsolicited merger proposal "seriously," but is continuing its diligent review of the proposal and will only respond when that review is completed, NRG CEO David Crane said in response to a letter from Exelon CEO John Rowe. Rowe, in a letter dated Nov. 3, said NRG has had "adequate time" to act, stating that further delay is creating uncertainty for shareholders. Rowe disclosed that several major, global banks have already offered to commit more funding than Exelon thinks is necessary to refinance NRG debt in a negotiated transaction structure, and said that the issue of refinancing NRG's debt if the transaction closes is not an impediment. "Considering the strong interest NRG's major shareholders have shown in our proposal already, we feel that we will get to a point soon where we consider it appropriate to take our offer directly to NRG shareholders rather than continue to wait for the NRG board to act," Rowe said.

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or ambiguous notices. Thus far, the combined measures have cost MXenergy $2 million. The small number of customers who had trouble cancelling were refunded the difference between their MXenergy rate and the applicable utility rate if the MXenergy rate was higher.

Based upon diminishing complaint volumes to the DPUC and remedial actions initiated by MXenergy, DPUC Staff does not believe that immediate corrective action by the Department is warranted.

Still, Staff, "notes that errors of an operational, human and clerical nature seem to be particularly problematic for MX and led to many of the issues before the Department in the instant proceeding," while, "operations solely within the Company's own internal control do not reveal exemplary performance." In addition to the renewal and welcome letter errors listed above, Staff cited customer difficulty in contacting MXenergy (due to higher hold times and a full voicemail box) as well as errors in discovery responses for its assessment.

Staff has lingering concerns over MXenergy's notice of rate relief sent to customers. The letter asks customers to choose one of two options, either a relief check or discounted rate, but with each option including language stating that the customer understands he or she is remaining on MXenergy's standard variable rate plan.

While MXenergy confirmed the language is not meant to restrict rate relief only to those customers remaining with MXenergy who do not leave for utility service or another supplier, Staff's review of the language mistakenly led Staff to believe customers must remain with MXenergy to obtain the relief. Staff is concerned customers may be interpreting the letters in the same way. Failure on customers' part to understand that they can obtain relief while still cancelling service may explain why, of the 9,099 MXenergy customers who were offered a discounted rate or refund, only 3,085 have replied, Staff noted.

MXenergy called allegations of bait-and-switch and incompetence raised in the case unfair given the inadvertent nature of the "processing errors" which caused most of the complaints. The fact that certain welcome letters were not "crystal clear" does not mean they were misleading, MXenergy insisted, arguing that many customers noted the language describing a "fixed price for a limited term" implied that the price is not fixed at the end of that term.

As previously reported, performance at MXenergy's call center degraded due to the high number of customer complaints, with wait times rising to about five minutes in September. MXenergy also disclosed in testimony that a high volume of price shopping among gas customers, many of whom entered three year contracts after Hurricane Katrina which are expiring, contributed to longer hold times, in addition to the Connecticut complaints.

MXenergy reported that it has been enrolling 800 to 1,000 new customers daily. Its average Connecticut sales rep sells 1.5 commercial accounts per day.

Among Staff's recommendations are:

- Review MXenergy's TPV process to ensure all necessary info is acknowledged by the customer and recorded
- Review MXenergy's cancellation policies to ensure such requests are processed in a timely way
- Review and monitor MXenergy's oversight of sales staff promises

PPL ... from 1

Although the poor trading results have prompted PPL to take a look at the business, executives maintained that some trading is important due to the size of its fleet and the need to participate in marketing for price discovery and to optimize its assets.

PPL is trimming capital expenditures by $200 million for 2009, mainly coming from the Supply segment through the elimination of new renewable investments, scaling back of hydro expansion opportunities, and significantly scaled back nuclear development activities.

PPL reported revenues from unregulated retail electric and gas sales of $43 million versus $28 million in the year-ago quarter.

Earnings for PPL Corp. slid to $203 million from $322 million a year ago.