Energy Choice Matters
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Universal Sees Commerce Acquisition Payback in 12 Months

Universal Energy Group expects its acquisition of Commerce Energy (Matters, 12/12/08) to be paid back in just 12 months, executives said during a fiscal year-end earnings call.

Universal paid $26 million for Commerce's remaining 90,000 customers, with cash on hand. When excluding large industrial users, Universal said the individual customer contracts are as profitable, and in some cases more profitable, that Universal's own book. There's room to reduce the prices in the acquired Commerce contracts to deter churn if needed, executives said.

Executives explained that in preparing due diligence for its original Commerce deal (which would have included books in just five markets), Universal realized that a deal only made sense if it included all of Commerce's books, particularly the California books where bad debt is much lower.

About a quarter of the acquired Commerce contracts are fixed one- or two-year products, with the balance being month-to-month plans. However, the average life of such monthly contracts is five years, Universal said. The key driver of earnings from the acquisition will be from reduced general and administrative costs, Universal said.

Organic growth at Universal remains strong as well, with net Residential Customer Equivalent (RCE) additions of 22,000 for the fourth quarter, and 86,000 for the year ending September 30. Universal's total customer base stood at 449,000 RCEs as of September 30. Universal acquired 22,000 RCEs from its acquisition of certain Wholesale Energy Group books earlier this year (Matters, 8/21/08).

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NYSEG/RG&E, National Fuel Gas, O&R File ESCO Referral Program Costs

ESCOs receiving enrollments from NYSEG and Rochester Gas & Electric's proposed ESCO referral programs would have to obtain customers' affirmative consent consistent with the Uniform Business Practices in order to keep customers beyond the introductory two-month period, under plans filed by the utilities in accordance with the New York PSC's recent retail access order.

Under the NYSEG/RG&E referral plan, which follows the ESCO Service Approach to referral programs, ESCOs would be required to send customers a contract for service beyond the introductory period within five days of receiving notice of the referral enrollment. If the customer does not affirmatively agree to the contract for the post-introductory period using the methods prescribed in the UBPs, the customer automatically reverts back to NYSEG/RG&E for supply service at the end of the introductory period, with the ESCO executing the transaction via a drop. ESCOs will not be allowed to charge cancellation fees or return fees if a customer chooses to return after the two-month introductory period.

Eligible customers would not be able to choose a specific ESCO, and would be assigned to one of the participating ESCOs on a rotating basis. A customer wanting a specific ESCO will be directed to the ESCO outside of the program.

Customers would only be permitted to enroll in the referral program in the months of January through October; referrals will not be processed during the Voice Your Choice months of November and December.

As required under the PSC's retail access order, ESCOs would fund the programs. NYSEG/RG&E

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Itron Recommends Continuation of TDU Role in Texas Efficiency Programs

Investor owned utilities should continue to fund energy efficiency programs in Texas, while expanding levels to reach toward the Legislature's targets and devoting more effort to raising the levels of public awareness of energy efficiency opportunities, Itron recommended in a report to the PUCT (35266).

TDUs currently offer various standard offer and other incentive programs open to REPs, energy service companies and other contractors, who use such funding to market and provide service to customers.

Itron recommended against removing the current role TDUs play in administering energy efficiency funding in Texas, given the lack of interest among REPs in offering customers a broad array of efficiency services, or in promoting information on existing efficiency programs to customers. Utility funding is also required as, "there is no strong evidence yet that other market players are willing to self fund an expanded marketing effort," Itron reported.

"While some of the retail electricity service providers have expressed an interest in providing more energy efficiency information to customers, the vast majority report they provide no energy efficiency information because they expect this function to be fulfilled by the private market," Itron said, based on surveys with market participants and customers.

Commercial survey results suggest there is a demand for more information about energy efficiency opportunities by Texas residential and commercial customers, "but this information for the most part is not being provided by the private market, in part because it is not in the private firms interest to provide customers with information on a variety of products and service providers," Itron said.

REPs and energy service companies are also not considered independent or credible by most customers, Itron added. However, market rules prevent TDUs from providing customers with useful information about how to seek out and find private sellers of energy efficiency services or participate in their own programs.

Itron also cited REPs', "inability or unwillingness to compete for the funds required to deliver energy efficiency programs that require face to face contact with customers," as a barrier to reaching efficiency targets.

REPs' inability to capture or claim credit for peak and dollar savings achieved by operating successful load management programs discourage REP participation, Itron observed, as most of the benefits flow to the TDUs. REPs also reported a lack of transparent planning processes by TDUs, as well as regulatory rules that prevent cooperation between REPs and TDUs, for their low participation in TDU programs.

Itron conducted interviews with two groups on REPs -- one group of four REPs identified by the PUCT as interested in providing energy efficiency tools and information to customers, and a second group of three REPs chosen at random from the Power to Choose website.

While the four REPs identified as interested in efficiency had a number of proposals and recommendations on the current TDU model, the three unnamed REPs chosen randomly, "were primarily interested in providing the lowest price electricity commodity to their customers without concern about energy efficiency services." These randomly chosen REPs, "reported negative opinions about the success and effectiveness of the efficiency programs run by the transmission and distribution utilities in Texas and doubts about the effectiveness of programs in general," Itron said.

According to Itron, most of the REPs interviewed felt the TDU programs were focused on a very small segment of the residential market, primarily low-income customers, and did not really provide service to middle and upper income residential households.

"Not surprisingly, they felt their own REP organizations could deliver higher quality efficiency services based on their ability to provide direct marketing materials on efficiency opportunities and feedback to customers on the effects of efficiency investments via advanced metering systems. These REPS clearly hoped to use a suite of program offers and tools as a means of differentiating themselves from other REP competitors who only provide cheap electricity and no services," Itron reported.

REPs who had participated in a limited number of energy efficiency programs run by the TDUs told Itron that the methods used to allocate funds were occasionally unfair and counterproductive. REPs complained of the practice of having annual solicitations to attract energy service companies to participate in standard offer programs, only to learn that the programs had run out of available funds within hours of the program offering. The on-again, off-again nature of the programs had "clearly irritated" some contractors and REPs who believed the program offers should be available on a continuous basis, provided they met strict quality and verification criteria, Itron noted.

When asked about potential conflicts between reducing kWh sales and maximizing profits for their company, the REPs felt strongly there was no conflict because maintaining a good relationship with satisfied customers was more important than a small loss in sales at the margin, Itron reported. "These REPS also felt strongly that their companies were in a better position to provide load management services and equipment to their customers at a lower price and better value than the IOU's," Itron said.

The REPs identified as interested in efficiency, "also had very detailed plans for how they planned to expand their efforts in the energy efficiency and demand response market areas as part of the rollout of advanced metering infrastructures," Itron noted.

"They were very confident their business models would succeed as electricity prices continue to increase in Texas."

These REPs suggested government funding should be used to market efficiency programs, rather than subsidize the current TDU standard offer programs. Some REPs suggested shifting funds from promoting opportunities to switch retail providers to energy efficiency efforts. REPs cited accelerated advanced meter rollouts, with 15-minute settlement, as key to reducing barriers to energy efficiency.

The three "commodity driven" REPs interviewed were not interested in providing any energy efficiency services to their customers, but they did not object to general messages encouraging customers to conserve. "This position was based on their conviction that other private firms would provide energy efficiency services on their own if the services made economic sense," Itron reported.

"They also were not interested in cooperating with any programs fielded by IOUs, stating that these ventures were likely to add additional costs to their business without providing additional value," Itron said.

Itron suggested that the PUCT should consider supporting a concerted effort to form efficiency partnerships between the TDUs and "progressive" REPs interested in energy efficiency, with an appropriate relaxing of market rules that prevent such coordination. Policies could be adjusted to allow TDUs and REPs to share both the costs and benefits of load management and energy efficiency programs.

TDUs could also use private marketing representatives to work with REPs to develop a coordinated marketing campaign and help increase REPs' credibility with customers, Itron said. Itron also recommended allowing utilities to market their programs directly to their customers in addition to providing indirect marketing messages through energy service companies.

Briefly:

Oncor Reports 10,000 Advanced Meters Deployed

Oncor has installed 10,282 advanced meters through November 30, and published a list of ESI IDs with smart meters in docket 36157. There have been no delays or deviations in the deployment plan, and Oncor is still on schedule to support Time of Use capability by May 1, 2009, and prepaid products by June 1, 2009. Oncor stated it is working with REPs to allow it to identify REPs' prepaid customers, so that Oncor can complete reconnection for such customers disconnected for non-pay one hour after receiving the reconnect notification from the REP, per Commission rules. The PUCT is holding a workshop on January 15 on the issue (Matters, 12/15/08).

NU, Nstar to Build Line to Support Quebec Hydropower PPA

Northeast Utilities and Nstar filed with FERC a request for a declaratory order on a proposed transmission interconnection with the Canadian province of Quebec, asking that FERC approve the assignment of firm transmission rights on a new participant-funded transmission line to Hydro-Quebec to enable the development of a purchase power agreement. The proposal calls for Hydro-Quebec to deliver hydroelectric power to New England over the new 1,200-MW direct current tie line. NU, Nstar and H.Q. Energy Services have signed memoranda of understanding to develop the transmission project on an exclusive basis. The proposed transmission line would connect the Des Cantons substation in Quebec with a point to be determined in southern New Hampshire, at PSNH. The intent of the parties is to create a structure that allows additional New England customers to participate in the PPA, not just those of NU and Nstar.

ERCOT Withdraws Petition for Interim Relief from Nodal Deadline

ERCOT has moved to withdraw its request for interim relief from the PUCT's Final Order in Docket No. 31540, which requires a nodal market to be operational by Jan. 1, 2009 (36345, Matters, 11/21/08). ERCOT had originally requested interim relief so it would not be found in technical violation of the PUCT's order due to the delay in the nodal market. The withdrawal does not affect ERCOT's pending request to raise the nodal surcharge.

Kooper New President at RESA

Hess Corporation's Jay Kooper has been elected President of the Retail Energy Supply Association for 2009. Other newly elected officers include:

- First Vice President: Ron Cerniglia (Direct Energy Services)
- Second Vice President: Marc Hanks (Direct Energy Services)
- Secretary: Melissa Lauderdale (Integrys Energy Services)
- Treasurer: Roy Boston (Sempra Energy Solutions)

State chairs, who lead advocacy and regulatory interventions at the state level, for 2009 are:

- Illinois: Roy Boston (Sempra Energy Solutions)
- Maryland/DC/Delaware: Leah Gibbons (Reliant Energy)
- New England: Chris Kallaher (Direct Energy Services)
- New Jersey: Marc Hanks (Direct Energy Services)
- New York: Steve Wemple (Consolidated Edison Solutions)
- Ohio: Teresa Ringenbach (Integrys Energy Services)
- Pennsylvania: Richard Hudson (Reliant Energy)

Universal ... from 1

Geographically, Canada accounts for 73% of total RCEs and the United States, currently only Michigan gas, accounts for 27% of total RCEs. In the U.S., residential customers account for 68% of RCEs and commercial customers account for 32% of RCEs.

In November 2008, Universal entered the New York electricity and natural gas markets with a variable rate offering to residential and small commercial customers. Sales during the test marketing period are "encouraging," the marketer said.

U.S. acquisitions steadily slowed during the year due to negative media attention in Michigan, and a complaint filed by Michigan PSC Staff (Matters, 12/23/08). Gross Michigan RCE additions were 33,000 for the first quarter of fiscal 2008, but gradually slowed to 1,500 by the fourth quarter.

Combined attrition for all markets for the year ended September 30 amounted to 79,000 RCEs or 15.5%. The Canadian market experienced attrition of 11.7% for the year and the United States market experienced attrition of 23.8%. Universal has been able to substantially offset the financial impact of the higher United States attrition by realizing a gain of $3.8 million on the saleback of excess gas previously procured for the Michigan market.

For the fourth quarter, Universal operational income from energy marketing was Cdn $10.4 million, up from Cdn $224,000 a year ago. Universal recorded a GAAP net loss of Cdn $34.1 million for the quarter, compared with a loss of Cdn $16.0 million a year ago, on Cdn $54.2 million in unrealized hedging losses.

Quarterly U.S. gas revenue was Cdn $9.8 million versus Cdn $3.7 million a year ago. Total revenue for the quarter was Cdn $70.7 million, up from Cdn $49.3 million a year ago.

U.S. gas gross margin grew to Cdn $1.5 million from Cdn $625,000 a year ago. Total gross margin was Cdn $25.7 million versus Cdn $20.8 million a year ago.

Customer acquisition costs for the quarter dropped to Cdn $4.4 million from last year's total of Cdn $8.3 million. General and administrative expenses were up at Cdn $6.3 million versus Cdn $5.2 million a year ago

For the fiscal year, GAAP net income was Cdn $26.0 million, including Cdn $12 million in unrealized hedging gains, versus last year's loss of Cdn $18.1 million, which was driven by Cdn $32.1 million in unrealized hedging losses.

Universal's National Home Services unit, which primarily markets home water heaters, posted a net loss of Cdn $1.3 million for the fourth quarter, its first quarter of earning revenues. As of September 30, National Home Services has installed over 7,000 water heaters in homes, and is installing units at a rate of 500/week, with the capability of performing 1,000/week. Executives said the unit could become the third largest player in the Ontario water heater market in "short order."

Universal Operational Margins

	Three months ended September 30		Years ended September 30	
	2008	2007	2008	2007
Operational margin per unit (dollars)				
Canada - Gas (Cdn$/m3)	0.0700	0.0681	0.0670	0.0745
Canada - Electricity (Cdn$/kWh)	0.0212	0.0175	0.0182	0.0170
United States - Gas (US$/Mcf)	1.5930	2.1077	1.6392	1.8449
United States - Gas (Cdn$/m3)	0.0604	0.0687	0.0592	0.0684
Operational margin per RCE (dollars)				
Canada - Gas	197.05	191.70	188.61	209.72
Canada - Electricity	212.00	175.00	182.00	170.00
United States - Gas	170.93	194.47	167.55	193.58

ESCO Referrals ... *from 1*

would only pursue referral programs if three ESCOs sign up for each commodity (a dual fuel ESCO will be counted once in each commodity).

Assuming both NYSEG/RG&E implement referral programs, combined one-time incremental costs would consist of $40,968 for system development and $16,000 for legal expenses. NYSEG annual on-going incremental costs would be $309,121 for the call center, $12,786 for network and telecom, $47,075 for outreach and education, and $35,100 for supplier relations. RG&E annual on-going incremental costs would be $8,525 for the call center, $5,384 for network and telecom, $36,700 for outreach and education, and $35,100 for supplier relations.

The referral program would have a term of two years, and ESCOs would commit to the two-year term.

National Fuel Gas

National Fuel Gas Distribution filed costs of reinstating its former "Contract Model" ESCO Referral Program, which would use a third-party call center to receive customer calls to a toll-free phone number dedicated to the referral program. Customers who call NFG seeking the referral program would be provided with the dedicated program phone number.

Initial setup costs for NFG's phone vendor would range from $3,500 for a single interface to $2,500 per interface if ESCOs require multiple interfaces. Contractor costs for system enhancements would be $4,000 for 10 or less participating ESCOs, or $6,500 for more than 10 participating ESCOs. Additional setup costs for NFG's distribution information system would be $400/ESCO. NFG also reported hourly rates for customer service rep training and time, but did not report total estimates for such costs.

NFG said that it did not continue its old ESCO referral program due to a lack of ESCO interest and because ESCOs had demonstrated that they could engage in effective marketing practices without a referral program. ESCO enrollment in NFG's service territory is currently at approximately 20% of total customers, and over 50% of load.

Orange and Rockland

Orange and Rockland reported that continuing costs of its already implemented PowerSwitch ESCO Referral Program include marketing costs, such as for bill inserts, and program administration costs, which include the costs of enrolling PowerSwitch customers, calculating and inputting the discount price into the Company's billing system each month, and monitoring the price for PowerSwitch customers so that price changes are not entered during the introductory period (Matters, 12/2/08).

The administrative costs are projected to total approximately $20,000 per year. Absent a material increase or decrease in enrollment levels, or a significant change in the manner in which customers are enrolling, the projected annual administrative costs should remain fairly stable.

Marketing costs will vary according to the number of bill inserts or other advertising undertaken during the year, and whether such outreach efforts include new designs or designs that have been previously utilized by O&R. Design costs for a bill insert typically range between $8,000 and $13,000. Printing costs for a bill insert are approximately $5,000. Advertising placement can cost anywhere from $1,500 to $5,000, depending on the newspaper, size, and number of days the ad will print, O&R said.

Annual ongoing charges would be assessed to ESCOs on January 1 of each year. An ESCO's annual contribution would be non-refundable in the event the ESCO subsequently decides to drop out of PowerSwitch during the year. Charges would be netted against monthly ESCO Purchase of Receivables disbursements made on January 20, similar to the process currently in place to recover monthly billing charges from payments remitted on the twentieth of every month.

O&R would require new ESCOs who want to participate in PowerSwitch to be assessed a charge for ongoing administrative costs, which would be prorated based on the number of months remaining in the year they join the program and netted against their upcoming monthly ESCO Purchase of Receivables' disbursement. The prorated administrative charges collected from the new ESCOs who join PowerSwitch would be used to offset ongoing costs in the upcoming year for all ESCOs.

As part of the marketing plan, participating ESCOs and Orange and Rockland, in collaboration, would determine whether bill inserts and/or print advertising would be used during the year to promote PowerSwitch and, if so, would develop and agree upon a schedule and budget for such activities

"Company approval of both content and quality of all marketing efforts is a prerequisite to proceeding with a marketing plan," O&R said. Additionally, participating ESCOs must consent to pay for the estimated marketing costs in order for a plan to be implemented by O&R. ESCOs joining the PowerSwitch program throughout the year would be required to contribute to the marketing plan for any semi-annual period in which they would benefit from the marketing activities.

For the past two years, Orange and Rockland has had approximately 700 PowerSwitch enrollments per year. Approximately 56% of customers participating in PowerSwitch now choose their own ESCO.

"Given the level of customer migration already achieved in the Orange and Rockland service territory (i.e., approximately 30% of its electric customers and approximately 40% of the gas customers are currently enrolled in retail choice), the Company is uncertain whether ESCOs are willing to fund the PowerSwitch program on a prospective basis," O&R reported.