Energy Choice Matters

February 6, 2009

WGES Posts Increased Earnings on Higher Margins

Washington Gas Energy Services reported higher operating earnings of $5.8 million for the first fiscal quarter of 2009, up from $4.3 million a year ago, on stronger retail gas margins, which offset lower electric and gas sales and customer attrition, including the loss of several large government accounts.

The operating earnings exclude mark-to-market losses associated with certain hedges. On a GAAP basis, first quarter earnings in the retail marketing unit were $450,000, down from $3.3 million a year ago.

Competitive retail gas sales for the quarter ending December 31 were down at 190 million themrs, versus 196 million therms in the year-ago quarter. Natural gas customer count at quarter-end fell to 135,800 from 140,700.

WGES electric sales were also down for the quarter at 845 million kWh, versus 899 million kWh a year ago. However, executives said that the annualized electric load under contract at the end of December 2008 is 17% higher than at the beginning of the fiscal year (Sept. 1, 2008), leading to higher electric volume projections for fiscal year 2009. Electric customer count stood at 63,900 at quarter's end, versus 67,100 a year ago.

The marketer raised its earnings outlook for 2009 based on higher sales expectations, including growth it has seen in the large C&I segment on the electricity side, higher customer usage due to weather, and higher margins based on forward prices.

WGES projected its operating guidance based on assumptions of 62.5-64.5 bcf of gas sales at

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BGE Warns of Higher Credit Costs from Portfolio Management

The Maryland PSC should defer any decision on SOS supply portfolio management until it has had an opportunity to assess the impacts of volatile commodity prices and the compounding impact of the current financial crisis on wholesale power procurement, Baltimore Gas & Electric said in a motion in Case 9117.

"In light of the historic and continued volatility of power prices, combined with conditions in financial markets today, utility portfolio management would likely increase costs and financial risks, and it appears certain that it would increase collateral requirements at a time when access to capital is severely constrained," BGE said.

The record in Case 9117, the PSC's review of SOS procurement methods, is already "stale," BGE noted, with the bulk of record testimony and cross examination occurring in the fall of 2007, though subsequent hearings and supplemental comments have continued since then.

BGE noted a major benefit of the current wholesale-bid SOS structure is that utilities are not required to post collateral for changes in market prices over the life of the SOS contract, unlike the suppliers, who must post added collateral with the utility when market prices rise above the SOS price (depending on their credit line). The benefit to utilities and customers of this

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Md. PSC Allocates POLR Gas Capacity Costs to Delivery, Not Sales, Customers

None of the $4.6 million associated with capacity costs incurred by Washington Gas Light to meet its POLR obligation with respect to competitive supply customers who could return to sales supply should be borne by WGL sales customers, the Maryland PSC said in an order yesterday on WGL's purchased gas adjustment charge (Case 8509). Rather, such costs should only be borne by delivery customers.

To mitigate the impact on delivery customers of collecting the sum, the PSC ordered a surcharge to be levied over 24 months to collect such costs from delivery customers, and credit amounts back to sales customers that they should not have paid.

At issue are costs of obtaining gas supply capacity to serve competitive supply customers on a POLR basis, above the capacity needed to serve just WGL sales customers. A hearing examiner in 2006 originally found the costs to be imprudent and disallowed them, based on a protest from the Office of People's Counsel. However, WGL argued OPC was only contesting the assignment of such POLR costs to sales customers, rather than delivery customers, not the overall prudence of such costs.

The Commission agreed with WGL, finding that the costs were not imprudent, and were incurred consistent with the Commission's prior order that WGL retains a POLR obligation to serve firm service customers who may return from competitive supply at any time. Such capacity costs, however, should not be borne by sales customers, the Commission held, directing such costs to be allocated to delivery customers.

Pa. PUC Extends Direct Energy Pike County Aggregation Two Years in Default Service Order

The Pennsylvania PUC approved a settlement which extends Direct Energy's fixed-priced aggregation of Pike County Light & Power customers for two years, starting June 1, 2009, while also establishing a backstop, spot-based default service with quarterly price adjustments, which customers may elect to choose.

Customers currently with Direct Energy through the aggregation will continue with the aggregation. Customers currently on default service will remain on default service unless making affirmative choice. About 81% of customers in Pike County are currently with the Direct aggregation.

The current aggregation price is 11.9¢/kWh. While Direct provided indicative pricing for the renewal term confidentially, and stated it expects to be able to offer savings off the current price, the final price was left open until the settlement was approved.

Customers can leave the aggregation, or spot-market default service, at any time without penalty to choose a competitive supplier. Chairman James Cawley said in a statement that ConEdison Solutions, Liberty Power, and MxEnergy Electric are the currently available options for Pike County customers aside from default service or the Direct Energy pool. According to the settlement as filed in mid-January, ConEd Solutions was the only supplier actively serving load among the three suppliers.

Cawley said the settlement represents the optimal interim solution for customers given Pike County's unique circumstances, which includes its small size, location in the New York ISO, and prior actions related to its rate cap expiration, default service, and establishment of the aggregation pool. The small size of the utility's load, combined with the large percentages of customers served by competitive suppliers, make it exceedingly difficult to negotiate favorable long term generation supply contracts, Cawley reported.

Thus, the spot market represents the appropriate least-cost portfolio for the few remaining customers currently taking default service, Cawley observed. Aside from quarterly market price changes, default service will include a quarterly adjustment charge for reconciliations, capped at 2¢/kWh, consistent with Act 129's goal of price stability.

The default service plan was the first to come before the PUC since Act 129 took effect, and Vice Chairman Tyrone Christy stressed that the unique circumstances of the case should not be viewed as precedent. “My concern is that our action today may appear to avoid giving full force and effect to the requirements of Act 129, and that parties in future cases may attempt to use the order we adopt today as precedent in their efforts to dilute the requirements of the Act ... this is a unique case and should not be interpreted as creating precedent,” Christy stressed.

The PUC set further proceedings to determine how aggregation customers are to be treated at the end of the pool’s two-year term in 2011 -- whether they revert to default service or remain with Direct Energy.

Marketers Protest MISO Plan to Qualify Non-Conforming PPAs as Capacity Resources

FERC must deny the Midwest ISO’s application to qualify certain contracts between various Minnesota utilities and Manitoba Hydro or Ontario Hydro as Capacity Resources for purposes of meeting Resource Adequacy Requirements, because the contracts plainly to not meet eligibility criteria in the MISO tariff, Integrys Energy Services and Reliant Energy said in separate protests at FERC (ER09-566).

At issue are contracts between several Minnesota LSEs, such as Minnesota Power (ALLETE) and Northern States Power (Xcel Energy), and Manitoba Hydro or Ontario Hydro. Although MISO in its filing admitted the contracts do not meet the tariff criteria, it argued that it has the discretion to qualify the contracts as Capacity Resources.

Among other things, the contracts do not, as required by the tariff criteria, identify one or more specific resources that can be verified by the Midwest ISO, nor do they specify either the full Installed Capacity of Generation Resource(s) or External Resource(s) from which power will be supplied, or the portions of each such Generation Resource and/or External Resources that are available under the PPA.

Reliant noted the requirement for contracts to contain a specific resource allows MISO to verify that capacity is not being double counted by the same market participant or another market participant, and that the capacity is offered into the market, thereby ensuring reliability under the Module E Resource Adequacy construct.

Granting MISO’s request to qualify the contracts as Capacity Resources would set a “dangerous precedent,” Reliant said, which, “could open the floodgates to other similar requests for exceptions to Module E from parties with contracts executed prior to the implementation of Module E.” The result would be a weakening in the Midwest ISO’s ability to ensure system reliability, Reliant cautioned.

“In addition, exceptions to Module E requirements would undermine establishment of a standardized product that buyers and sellers can transact with certainty to meet the Midwest ISO’s planning reserve requirements. Buyers and sellers would be incented to attempt to seek waivers to their own benefit or otherwise seek special treatment outside of the Tariff,” Reliant observed.

The requested MISO relief would result in certain LSEs receiving preferential treatment because some contracts with similar characteristics would be afforded Capacity treatment while others would not, Integrys Energy Services added. “The Midwest ISO is not seeking to treat all contracts of a similar nature the same as they are required to do in order to avoid claims of undue discrimination,” the Integrys marketer said.

“Midwest ISO cannot continue to create exceptions for some parties while requiring other parties to comply with the express terms of the Tariff,” Integrys Energy Services argued.

“If the Midwest ISO system is to function properly and in a non-discriminatory manner, Midwest ISO must enforce its Tariff. To hold otherwise would be to continue to perpetuate the two levels of service in the Midwest ISO to the detriment of all market participants,” Integrys Energy Services concluded.

Consumers Energy protested a specific PPA between ALLETE and Ontario Hydro, noting the contract was executed in September 2008, or over three months after the date that the relevant tariff was filed with FERC. Furthermore, the Confirmation Letter between Ontario Hydro and ALLETE did not become effective until January 1, 2009, only 21 days before MISO filed its application for relief at FERC. Thus, the contract does not have a history of supplying capacity resources, and a history of reliable deliveries could not be used in this instance to grant a waiver of the tariff requirement, Consumers said.

SouthStar Energy Services Growth Slows in 2008

AGL Resources' SouthStar Energy Services marketing unit posted EBIT of $22 million for the fourth quarter, up from $16 million a year ago, but yearly results were off of last year's exceptional pace, as expected by executives.

For the year, SouthStar Energy Services reported EBIT of $57 million, versus $83 million in 2007. Operating margin declined $39 million year-over-year, primarily due to $24 million in lower-of-cost-or-market (LOCOM) natural gas inventory valuation adjustments recorded in the third and fourth quarters of 2008 to reduce the weighted average cost of inventory to market value.

The decrease in operating margin also reflects a 3 percent decrease in average customer count and lower contributions during the first quarter of 2008 related to the management of storage and transportation assets, largely due to rising commodity prices and reduced opportunities. These decreases were partially offset by higher operating margins in Ohio and Florida, increased average customer usage for the year, and colder weather in 2008 as compared to last year.

The "stagnant" Georgia gas market has been SouthStar's biggest challenge, executives reported on a conference call. SouthStar experienced a slight (1%) market share decline in Georgia, though it still claimed the lead at 34% of the total market.

Economic conditions have resulted in much more consumer price shopping than in prior years, and more customers are choosing fixed-price plans rather than floating on a variable plan, executives said.

SouthStar continued to make progress during 2008 in expanding its competitive presence to other competitive gas markets such as Ohio and Florida.

Maine PUC Dismisses Maine Power Connection CPCN Case

The Maine PUC dismissed without prejudice Central Maine Power and Maine Public Service's CPCN application to construct the Maine Power Connection, which would have linked the Maine Public Service territory with NEPOOL, in a written order released yesterday (2008-256).

The PUC agreed with industrials and cooperatives that the underlying rationale for the line –- to access 800 MW of wind energy developed by Aroostook Wind Energy –- has vanished, as Aroostook Wind has decided not to fund further studies for reliable integration of its supplies with ISO New England via the line, and no longer projects operating by 2010 (Matters, 1/1/09).

Cooperatives and industrials noted that as long as the CPCN case is pursued, CMP and MPS can continue to recover all of their costs under the cancelled plant precedent of FERC. Sensitive to such additional costs, the PUC saw no reason to keep the docket open, as other issues, such as access to the isolated Northern Maine market, can be pursued in other proceedings.

The Commission encouraged stakeholders to continue to work on the reliability and competitive market issues raised by the application, and did not rule out the possibility of initiating an investigation on its own motion to address northern Maine market and reliability issues should it appear that no additional proposals are forthcoming from stakeholders.

The Commission also chastised CMP and MPS for not disclosing the existence of system impact studies of the line (which showed reliability problems that would raise costs) until a December conference –- after the PUC had already rejected an earlier motion to dismiss -– stating that such lack of disclosure weakened the creditably of MPS and CMP, who had sought to keep the docket open another 90 days to pursue alternatives that could be reliably integrated into ISO New England.

At FERC, the Massachusetts DPU, Connecticut DPUC and other parties have sought rehearing of FERC's decision to grant MPS and CMP a 150 basis point incentive adder to their base return on equity and recovery of all prudently incurred abandonment costs for the $625 million Maine Power Connection project, and moved to lodge the fact that Aroostook Wind has indefinitely delayed its development. However, CMP and MPS, despite noting the Maine PUC's dismissal, said they are still pursuing the project, are considering alternatives, and urged FERC not to modify its approved transmission incentives.

Adjusted Earnings Up at Duke Commercial Power

Adjusted EBIT at Duke Energy's Commercial Power unit grew to $101 million for the fourth quarter, up from $25 million a year ago.

Duke credited the timing on the recovery of environmental and capacity riders, recovery of fuel and purchased power costs, lower net purchase accounting expenses, gains on the sale of emission allowances, and improved results from its Midwest gas assets for the increase.

On a non-adjusted basis, Commercial Power reported a fourth quarter EBIT loss from continuing operations of $9 million, compared to $38 million in positive EBIT in the fourth quarter 2007, due to unrealized mark-to market losses.

The Midwest gas-fired assets ended the year with an adjusted EBIT loss of $6 million. Excluding $15 million in bad debt reserves, recorded in the third quarter on power sales to Lehman Brothers, the Midwest gas assets would have been EBIT positive for the year on an adjusted basis, Duke said. Duke projected that the Midwest assets will be EBIT positive in 2009 on an adjusted basis.

Approval of Duke's electric security plan in Ohio has resulted in the reapplication of regulatory accounting treatment to a portion of a rate rider recovering fuel and purchased power expenses from generation serving native load customers. As a result, Commercial Power's earnings will no longer be subject to volatility due to the over- or under-collection of these rate riders, Duke said.

Full-year 2008 EBIT from continuing operations for Commercial Power were $264 million, compared to $278 million in 2007.

Across all of Duke Corp., fourth quarter net income rose 36% to $331 million from $243 million a year ago.

Briefly:

Exelon Marketer Awarded Pa. Electric License

The Pennsylvania PUC awarded Exelon Energy Company a license as an electric broker/marketer engaged in the business of supplying electricity for C&I customers above 25 kW and governmental customers throughout all service territories. Exelon previously held an electric generation supplier license in the state but abandoned it in 2002. Exelon also holds a gas marketing license in Pennsylvania.

Positive Energy Seeks Conn. Aggregation License

Start-up Positive Energy Electricity Supply applied for a Connecticut electric aggregator license to serve all customers. CEO Elena Cahill is a lawyer with a background relating to business development and marketing. Various other unnamed officers are currently employed by competitors of Positive Energy, but the start-up did not desire to disclose those individuals publicly until those relationships are terminated.

Metro Energy to Turn in Michigan Electric License

Detroit-based Metro Energy LLC applied at the Michigan PSC to relinquish its alternative electric supplier license, stating it has not served customers since Detroit-Wayne Metro Airport returned to bundled service in 2007, and it has no plans to serve new customers.

FERC Sets Conference on Intermittent Integration

FERC set for March 2 a technical conference on the challenges posed by integration of large amounts of variable renewable generation into wholesale markets and grids (AD09-4). The Commission previously dealt with the technical differences of wind power from other forms of generation in 2005, when the Commission issued Order No. 661.

Pa. PUC Finalizes Conservation Service Provider Regs

The Pennsylvania PUC approved final minimum experience and qualification requirements for conservation service providers and established a registry of the providers. Electric distribution companies must use at least one independent conservation service provider in meeting legislatively required efficiency targets. Under the minimum requirements, each conservation service provider or its principals must have at least two years of documented experience in providing program consultation, design, administration, management or advisory services related to energy efficiency and conservation services. Conservation service providers must re-qualify every two years. Utilities are permitted to establish additional "reasonable" requirements based on the type and scope of work to be performed by the conservation service provider. Contracts between the conservation service providers and utilities are subject to Commission review.

WGES ***... from 1:***

margins of $0.65/Dth to $0.75/Dth, and 4.0 million MWh to 4.5 million MWh in electric sales at margins of $5.50/MWh to $6.50/ MWh.

The significant decline in electric prices have enabled WGES to increase mass marketing efforts, and it told investors it can now offer residential and small commercial customers prices that are bellow utility default services rates, "by a pretty good gap." WGES is ramping up its mass market sales activity accordingly.

The weak economy has resulted in WGES increasing its reserve for uncollectible accounts, executives reported. Retail energy bad debt is still relatively low because of the quality of the credit screening process used for new customers and attempts to mitigate emerging credit issues with existing customers, executives said.

Washington Gas Energy Systems, WGL Holdings' design-build energy systems and efficiency unit, posted first quarter net income of $832,000, up from $273,000 a year ago. Results were primarily driven by higher revenues and lower costs.

Parent WGL Holdings reported earnings of $51.8 million for the quarter, up from $47.2 million a year ago.

Portfolio Credit ***... from 1:***

asymmetric arrangement is even more pronounced when access to capital is limited or even unavailable, such as now, BGE said.

A shift from the current SOS model to active portfolio management could expose BGE to substantially greater credit risk and financial risk due to the potential need to post collateral with wholesale suppliers, BGE said. The increased risk will translate into higher costs for customers, BGE noted. Existing supply contracts would require $372 million in collateral based on January 30, 2009 prices, BGE calculated. To put that massive sum in perspective, BGE's total existing credit facility for its entire business is just $400 million, and the amount is being fully used for distribution-related needs.

Whether through bilateral contracting or forward power exchanges, purchasing supply through a utility-managed portfolio would cause BGE to incur additional collateral costs, and would require short-term financing to manage mark-to-market changes in electric prices. BGE said it would be unlikely able to raise the added capital required for the supply contacts on reasonable terms, given the current financial market.