Energy Choice Matters

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Integrys to Divest or Shrink Competitive Unit due to Capital Requirements

Integrys Energy Group has decided to either divest entirely or partially Integrys Energy Services, or significantly reduce the scope and scale of the unregulated unit, the parent said in advance of an earnings call today.

Integrys cited the capital-intensive nature of the business for the decision, making it one of several recent players in the industry to scale back or restructure operations due to credit and collateral requirements.

Integrys Energy Group said its short-term strategy will be to reduce and refocus its capital on those aspects of Integrys Energy Services' business that yield the highest return. Longer-term, in the event that a full divestiture of Integrys Energy Services does not occur and a portion of the nonregulated energy services business remains, the unit will be a smaller segment that will require significantly less capital, parental guaranties and overall financial liquidity support from Integrys Energy Group.

The strategy is expected to reduce earnings contributions from the unit going forward, in exchange for an improved business risk profile and enhanced financial security. Divestiture of the nonregulated business segment, or a reduction in its size and scope, is also expected to allow

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Clayborne, Holbrook Say Current ICC ABC Proposal Contains Loopholes

The two chief sponsors of the Illinois ABC Law told the Illinois Commerce Commission that the latest ALJ proposal to implement the law would create loopholes in customer protection, and would fail to carry out legislative intent (08-0548, Matters, 1/19/09, 1/15/09).

In a letter to the ICC, Sen. James Clayborne (D- Belleville) and Rep. Thomas Holbrook (D-Belleville) said they were "gravely concerned" with the proposed definitions of “attempts to procure” and “attempts to sell” in the proposed decision, which would establish the entities that would be subject to licensing and would be required to comply with the Act's requirement to disclose to the customer compensation received for brokering services.

As proposed, entities that have “authority ... to purchase or enter into a contract to purchase ... [retail electricity] on said customer’s behalf” would be subject to the rules. Such a "power-of-attorney requirement" would exclude most ABCs, Clayborne and Holbrook said, since ABCs "rarely" receive authority to enter into a contract on behalf of the customer.

Furthermore, the definition of "attempts to sell" would also allow ABCs to "skirt the law", the lawmakers said. Under the proposed definition, ABCs would only have to disclosure remuneration received by a retail electric supplier in serving the customer, instead of remuneration from "any third party" as stated in the law.

"This invites gaming of the system, either through payments by a middleman, the use of shell companies or affiliates, or any number of clandestine but technically legal methods to evade the law’s regulations," Clayborne and Holbrook said.

PUCT Staff Recommends Denial of TCS Energy Application

PUCT Staff recommended the REP application of TCS Energy be denied because, among other reasons, its affiliate Young Energy failed to timely remit payment for invoiced charges to Oncor, and failed to file annual reports for 2005 and 2006 (36593, Matters, 2/9/09).

Though Young Energy was not listed as an affiliate by TCS in its application, Staff cited the "common control and ownership" of the entities for its designation (Matters, 1/23/09).

In addition, Young Energy did not notify the Commission that it transferred its customers to dPi Energy some time during 2008 (Matters, 8/12/08). Staff said notice is required by Subst. R. §25.107(i)(8), relating to cessation of operations.

Young Energy's aforementioned default on payments to Oncor, "constitutes a violation of the Commission Rules that may subject Young Energy, LLC to suspension or revocation of its REP certificate," Staff added.

Staff further questioned the motive of TCS Energy in seeking a REP certificate, rather than its owners continuing to participate in the market as Young Energy. "A possible motive for not utilizing the REP certificate held by Young Energy is to avoid TDU deposit requirements," Staff said, noting that the Youngs, owners of the various entities involved, funded TCS for the purpose of obtaining REP certification, but did not repay debts owed to Oncor until Oncor intervened in the docket.

TCS also failed to disclose three telecommunication affiliates in its REP application as required, one of which is currently under a plan of reorganization after emerging from bankruptcy.

For those reasons, Staff said TCS Energy does not possess the managerial and technical qualifications required to provide retail electric service.

CenterPoint Energy Competitive Gas Book Grows Nearly 40% in 2008

CenterPoint Energy's competitive natural gas sales and services segment reported operating income of $26 million for the fourth quarter of 2008, up from $19 million for the same period of 2007.

Operating income increased due to more favorable locational and seasonal price differentials, which were partially offset by higher operating expenses. Operating income for the fourth quarter of 2008 included a $6 million write-down of natural gas inventory to the lower of average cost or market, while operating income for the fourth quarter of 2007 included gains of $2 million resulting from mark-to-market accounting for derivatives used to lock in economic margins of certain forward natural gas sales.

Customer count grew to 9,800 as of December 31, 2008, up from 7,100 a year ago and 7,000 at the end of 2006. Throughput for the fourth quarter inched 5% higher year-over-year to 136 Bcf from 130 Bcf a year ago. For the year 2008, sales were relatively flat at 528 Bcf versus 522 Bcf a year ago.

CenterPoint said it expects its base commercial and industrial sales business to perform in 2009 at a level similar to 2008. Its focus is to continue to expand the commercial and industrial customer base while maintaining a low risk profile.

The competitive unit's operating income for the year 2008 was $62 million compared to $75 million for 2007. Yearly operating income declined due to lower gains on sales of gas from inventory and higher operating expenses, partially offset by more favorable locational and seasonal price differentials. Operating income for 2008 included inventory write-downs of $30 million compared to inventory write-downs of $11 million for 2007. Operating income for 2008 also included gains of $13 million resulting from mark-to-market accounting compared to mark-to-market charges of $10 million for 2007.

CenterPoint Energy Houston Electric reported adding nearly 31,000 customers in the service area in 2008, though growth "moderated" in the third and fourth quarters due to the economy and Hurricane Ike. Deployment of advanced meters across the entire territory will begin next month.

Consolidated net income for parent CenterPoint Energy Inc. for the year 2008 was $447 million, up from to $399 million a year ago.

Wholesale Results Weigh Nicor Competitive Unit Yearly Earnings

Operating income for Nicor Inc.'s Other Energy Ventures category, which consolidates wholesale gas marketing, retail gas marketing, and retail energy services, slipped $8.7 million for the year 2008 to $25.3 million, from $34.0 million in 2007.

The decrease was due primarily to lower operating income at wholesaler Nicor Enerchange ($11.9 million decrease), partially offset by higher operating income at Nicor's retail energy-related products and services businesses ($4.8 million increase). Lower operating income at Nicor Enerchange was due primarily to unfavorable changes in valuations of derivative instruments used for hedging, plus lower results from the company's risk management activities associated with hedging the product risks of the utility-bill management contracts offered by Nicor's energy-related products and services businesses.

Improved operating results at Nicor's energy-related products and services businesses were due to lower operating expenses ($12.2 million decrease), partially offset by lower operating revenues ($7.4 million decrease). Decreased operating costs at the retail units were due primarily to lower average costs associated with utility-bill management contracts, attributable primarily to product mix.

For the fourth quarter of 2008, Other Energy Ventures operating income decreased $5.5 million compared to the prior-year period due to lower operating results in the company's wholesale natural gas marketing business and retail energy-related products and services businesses. Aside from the impacts of derivative accounting on the wholesale unit, lower fourth-quarter income was due to higher operating costs at the retail unit, due to higher average costs associated with utility-bill management contracts versus the fourth quarter of 2007.

Executives during an earnings call said they continue to be "pleased" with the economic performance of the Other Energy Venture businesses, which are expected to continue to make important contributions to Nicor's long term earnings and remain an integral part of Nicor's overall growth strategy

Parent Nicor Inc. reported consolidated net income for the year 2008 of $119.5 million, down from $135.2 million a year ago.

Briefly:

King Retiring From Direct Energy

Direct Energy CEO Deryk King is retiring after eight years of building the retailer in North America, and will leave his post at Direct in July 2009. King will be succeeded by Chris Weston who will take over as President and CEO of Direct Energy on July 1, 2009, after a transition period. Weston has spent the last three years as Managing Director, British Gas Services, where he led a transformation of the retailer, posting strong earnings and customer growth. Previously, Weston headed up British Gas Business, Centrica's commercial energy supply operation in the U.K.

AEP Ohio Current Rates Extended Through March

PUCO ordered that the current Standard Service Offer rates at AEP's Ohio Power and Columbus Southern Power utilities shall continue to be in effect through the March billing cycle, or until approval of new rates under an electric security plan, as the Commission continues to deliberate on the ESP. The 2008 Standard Service Offer rates had been previously been extended in December (Matters, 12/22/08).

D.C. PSC Issues Revised Gas Service Quality NOPR

The District of Columbia issued a revised

NOPR to create new natural gas service quality rules, which impose reporting obligations on competitive suppliers similar to recently enacted rules for electric suppliers (FC 977, Matters, 8/25/08). Competitive natural gas service providers would be required to inform the PSC's Office of Engineering and the Office of People's Counsel when a billing error has affected 100 or more customers or when the number of affected customers is equal to or more than two percent of the provider's customer base, whichever is fewer. Suppliers would also have to submit on a quarterly basis monthly compliance reports detailing their fulfillment of the service quality obligations. Compliance data is to be retained for seven years.

FirstEnergy Solutions Launches in ComEd Territory

FirstEnergy Solutions said yesterday it has started marketing in the Commonwealth Edison territory of Illinois, expanding from its previous focus on the Ameren territories. The expansion was first reported by Matters last fall (Matters, 9/9/08), and FirstEnergy Solutions was granted its expanded license in October (Matters, 10/13/08). The ComEd license is for all customer classes, though its offerings on its website are geared towards C&I customers. Product offerings include standard fixed and variable options, and a fixed plan with a strike price option. FirstEnergy Solutions did not apply for single billing authority in the ComEd territory. FirstEnergy did not return a call seeking comment.

ERCOT Submits PRR to Fix Appeals Process

ERCOT has submitted Protocol Revision Request (PRR) 804 to clarify what actions regarding PRRs are appealable. Under the proposed language, if a PRR before the relevant body fails to be either approved or rejected by a certain number of meetings (not specified in the proposal), any ERCOT member, market participant, or PUCT Staff can appeal the PRR to the next higher body (e.g. from the Protocol Revision Subcommittee; to the Technical Advisory Committee; to the ERCOT Board; or to the PUCT). The language is intended to prevent PRRs from languishing in committees because they are neither approved nor rejected, but merely tabled. Urgency status for the PRR was approved. The issue arose from the Texas Industrial Energy Consumers' appeal of PRR 776, Automatic MCPE Adjustment During Intervals of Non-Spinning Reserve Service Deployment (Matters, 2/18/09).

PECO Gas Rate Falls 10%

PECO said its natural gas rate for average usage will drop from the current $1.51 per ccf to $1.36 per ccf effective March 1, due to lower wholesale prices. Combined with two previous quarterly decreases, the gas commodity portion of PECO’s natural gas rate will now be the lowest it has been since December 2003.

Md. PSC Approves BGE Type II Mitigation Reconciliation

The Maryland PSC approved Baltimore Gas and Electric's final reconciliation of the estimated mitigation costs as specified under Rider 29 (Type II Rate Mitigation and Recovery Charge), which results in a credit of $0.00010/kWh for all nonresidential customers, effective in the March 2009 billing period (Matters, 1/26/09). The distribution credit reconciles charges paid by all non-residential customers to mitigate rates during the summer of 2008 for certain customers moving from Type I to Type II rates (Matters, 5/29/08).

Reliant Energy to Relinquish D.C. License

Reliant Energy Solutions East applied to relinquish its electric supplier license at the District of Columbia PSC, stating it does not currently serve customers and will not seek to supply district customers for the foreseeable future. Reliant sold its Northeast customer book to Hess Corporation last year.

Dynegy Selling Ga. Plant

Dynegy has reached an agreement to sell the 539-MW Heard County Power Generation Facility in Georgia to Oglethorpe Power

Corporation for $105 million in cash. Dynegy said the gas-fired plant was not a core asset, as Dynegy is focused on its units in organized markets in the Midwest, West and Northeast.

CPS Intends to Suspend Three Units

ERCOT said yesterday it has received notification from CPS Energy for suspension of operations for three units at the W.B. Tuttle generating station: TUTTLE_WBT1G1, TUTTLE_WBT3G3, and TUTTLE_WBT4G4. The gas-fired Tuttle units were constructed during the 1950s.

FirstEnergy Opposes NASA Reasonable Arrangement Petition

FirstEnergy and its Cleveland Electric Illuminating subsidiary moved to dismiss an application for a "reasonable arrangement" from NASA's Glenn Research Center, stating that the application failed to meet PUCO criteria for such applications, as the application did not contain any terms or provisions for a proposed arrangement. The application amounts to a request to order CEI to enter into negotiations with NASA, which PUCO does not have authority to grant, FirstEnergy said. NASA had been receiving generation on a special contract from CEI which expired on December 31, which was not renewed by CEI. Accordingly, NASA is paying current tariff rates for service.

Integrys ***... from 1:***

Integrys Energy Group to eliminate or reduce the credit facilities and other forms of financial support committed to Integrys Energy Services.

Despite the decision, Integrys said the energy services unit had a "strong quarter," though results were masked by non-cash items which produced a GAAP loss. Integrys Energy Services posted a net loss of $27.6 million for the fourth quarter, reversing net income of $49.1 million a year ago, on an $89.1 million after-tax decrease in Integrys Energy Services' margin related to non-cash activity. The bulk of the reversal ($81.8 million) was related to adjusting derivative electric customer supply contracts to fair market value, while the remainder was related to a lower-of-cost-or-market adjustment of stored gas.

The non-cash decreases in results were partially offset by a $16.7 million increase in realized natural gas margins, primarily related to realized gains on wholesale natural gas storage transactions.

Integrys Energy Services reported growth in its forward book value, driven by a 20% decline in energy prices during the fourth quarter, which followed a 40% decline in the third quarter. The lower prices provided attractive risk mitigation opportunities for customers, who returned to longer-term, more typical contract practices, Integrys said.

Forward contracted retail electric volumes increased approximately 33%, while forward contracted retail natural gas volumes were unchanged from December 31, 2007 to December 31, 2008. When compared to previous years, these reduced retail electric and natural gas volumetric growth rates resulted from Integrys Energy Services' focus on "higher quality business" within existing markets, in addition to the effect of applying high credit standards under current market conditions.

Parent Integrys Energy Group reported income available for common shareholders on a GAAP basis of $25.6 million for the quarter ended December 31, 2008, compared with $85.1 million a year ago.