Energy Choice Matters

March 17, 2009

ERCOT TDUs Oppose Staff Switching Proposal, Suggest Minor Changes to Speed Switches

The Joint TDUs are convinced that it is not appropriate to "radically" change the current ERCOT switching process, in reply comments opposing a proposed expedited switching protocol (36536).

PUCT Staff proposed trimming the switching timeline to six days through use of an expedited meter read, which would occur off-cycle at no cost of the customer (Matters, 3/6/09). REPs, in initial comments on the proposal, have expressed concern about TDUs' using estimated reads to execute the expedited switches.

TDUs, in turn, attacked REPs' insistence that expedited meter reads be actual reads and not estimates, and said consumers do not want an expedited process.

Instead, TDUs recommended simply doing away with the rescission period, and using a modified customer notification process to significantly shorten the on-cycle switch timeline. If the rescission period is removed, TDUs said the average time for the on-cycle switch would be 16 days, although some switches could take up to 35 days.

That timeline would still be longer than the 14-day timeline which was the basis for the notice requirements adopted in the recently revised REP disclosure rule. TDUs recommended changing language in the REP disclosure rule regarding a seven-day switching timeline.

TDUs noted that under the draft new POLR rule, customers in a mass transition could switch to another REP within the first 30 days of POLR service without incurring a charge for an out-of-cycle meter read, and thus such customers could still switch REPs quickly at no cost, without the need for the expedited process.

Continued Page 4

IDT Energy Posts Another Strong Quarter on Favorable Spot Market Pricing

"Favorable market conditions" pushed IDT Energy margins and adjusted earnings higher in the second fiscal quarter of the year, IDT reported yesterday.

IDT Energy posted $16.4 million in income from operations during the quarter ending January 31, 2009, compared to $1.9 million in the year-ago quarter. IDT Energy's adjusted EBITDA was $16.5 million in Q2 2009, compared to $2.1 million during Q2 2008.

Gross margin increased year-over-year to 24.3% for the quarter, from 10.4% in the year-ago quarter. The margins are down from the extremely strong results in the first quarter of 2009 (30.1%), but are still double what IDT believes are sustainable margins in the business. Similar to the first quarter of 2009, IDT benefited from a favorable, though likely temporary, increased spread between spot market pricing and retail prices. IDT Energy typically relies heavily on the spot market for its gas and electric supplies.

IDT Energy grew its customer base as of January 31, 2009, to 408,000, up from 318,000 a year ago and 392,000 as of October 31, 2008. Gross acquisitions during the second quarter were 68,000 meters, versus 50,000 meters a year ago. Churn during the quarter averaged 5% per

Continued Page 5

SaveOnEnergy, Choose Energy Expand Partnership to Residential System

Texas-based online brokers SaveOnEnergy.com and ChooseEnergy.com have increased their strategic partnership, as SaveOnEnergy will begin using Choose Energy's residential enrollment transaction system.

Last fall, the brokers entered an agreement under which Choose Energy would use SaveOnEnergy's retail exchange portal for commercial sales, in effect driving commercial leads to SaveOnEnergy through the Choose Energy website (Matters, 9/25/08).

Choose Energy, which has focused on the residential market, developed a unique residential transaction system which allows the customer to execute their enrollment with a chosen supplier through ChooseEnergy.com, without the need to be linked to the supplier's own website for enrollment. SaveOnEnergy will now use that technology, licensed on a per-enrollment fee, for its residential offers in all markets.

Allowing customers to enroll directly through the SaveOnEnergy.com website will close more deals and cut down on the amount of customers dropped as they exit the site to the retail supplier's site for enrollment, SaveOnEnergy CEO Brent Moore told us. It also benefits suppliers, as it will close more acquisitions for them as well.

SaveOnEnergy is to implement the new transaction system in 30-45 days.

The arrangement allows SaveOnEnergy, which has primarily focused on the C&I market, to enhance its residential offering without the time and capital investment required to create its own system, allowing it to focus on its increased mass marketing efforts in Texas.

Power Marketers Say MISO RSG Redesign Proposal Would Ignore Cost Causation

The Midwest ISO's revised redesign Revenue Sufficiency Guarantee cost allocation formula deviates from FERC order and would allocate RSG costs to virtual supply offers that such offers did not cause, several power marketers said in protests at FERC.

Under MISO's latest formula, real-time RSG costs would be assigned using three "buckets" -- (1) the Constraint Management Charge, (2) the Day-Ahead Schedule Deviation Headroom Charge and (3) the RSG Second Pass Charge.

That process differs from an "indicative" proposal filed by MISO in the spring of last year, which included four allocation buckets: (1) RSG Constraint Management Charge; (2) RSG Intra-Hour Demand Change Charge; (3) RSG Day-Ahead Schedule Deviations Charge; and (4) RSG Second Pass Charge. Essentially, MISO has combined the Intra-Hour Demand Change Charge and Day-Ahead Schedule Deviations Charge into a single bucket.

Combining those two buckets would assess costs to virtual supply offers for intra-hour deviations in direct contravention of FERC's November 10 order, and would not be consistent with cost causation, Integrys Energy Services said.

All virtual transactions are fixed by definition at the close of MISO’s Day-Ahead market and are not subject to change. Since virtual transactions are fixed at the close of the Day-Ahead market, only those costs that arise prior to the close of the Day-Ahead market should be allocated to virtual supply, Integrys Energy Services argued, which are RSG costs incurred in the Forward Reliability Assessment Commitment (FRAC).

However, by combining the two allocation buckets, MISO would assign to virtual suppliers RSG costs occurring after the close of the Day-Ahead market, including Intra-Day Reliability Assessment Commitment (IRAC) RSG costs, as well as costs from load forecast errors and other costs that change after the Day-Ahead market closes. FERC, in its November 10 RSG order, recognized that virtual suppliers should not pay such costs, Integrys Energy Services said.

FERC's November order required MISO to implement the originally proposed indicative proposal (with updates related to the ancillary services market), and did not contemplate substantive changes filed by MISO such as merging two of the proposed buckets, Integrys Energy Services added.

Integrys Energy Services and several financial marketers also supported recommendations from the Independent Market Monitor (IMM) to net deviations on a market-wide basis, rather than only on an individual market participant basis, to reduce RSG costs incurred by the market. Failing to net deviations in the aggregate causes the total amount of RSG costs allocated to deviations to exceed the maximum aggregate cost impact that deviations could potentially cause, Edison Mission Energy noted.

While the MISO has said the market monitor's aggregate netting proposal fails to consider multi-hour commitments, Edison Mission countered that multi-hour commitments are not an important driver of RSG costs. The vast majority of RSG costs in MISO are paid to peaking resources, which tend not to encounter the multi-hour commitment situation that is the basis for the MISO's criticism, Edison Mission noted.

Furthermore, "MISO previously suggested that the real problem with the IMM's recommendation is that a majority of stakeholders wanted the MISO to ignore this suggestion ... The MISO's job is not to blindly follow the preferences of the majority but to independently administer the market. This is particularly important here, since the stakeholders in the RSG Task Force to which the MISO refers consist mostly of the complaining parties in this proceeding, and those parties have an interest in moving as many dollars as possible away from load regardless of cost causation," Edison Mission said.

E.ON suggested that MISO incorporate prices from peaking units into the LMP as previously recommended by the IMM, as a means of reducing RSG costs. Congestion prices should be incorporated into the LMP rather than collected through the first RSG bucket, E.ON said, which noted other RTOs allow constrained output generators to set the LMP when any portion of that resource is operating to meet load, as opposed to satisfying a minimum run time.

DC Energy asked FERC to direct MISO to clarify the scope of the RSG cost allocation methodology as it relates to self-scheduled generators. Under the redesign proposal's tariff language, DC Energy said it appears that MISO would exempt self-scheduled generators from the RSG charges that they cause due to the fact that they are able to change their schedules up to 30 minutes ahead of the operating hour, and well beyond the notification deadline applicable to all other market participants.

Furthermore, under the redesign proposal, the "vast majority" of RSG costs are not allocated to Real-Time load, DC Energy noted. "For costs which are primarily incurred due to such causes as local reliability requirements, voltage control and unit commitments that turn out to be unnecessary, an allocation of RSG costs to load or to load in a particular transmission provider's service area would ensure that customers share equitably in the cost responsibility," DC Energy said.

Wisconsin Electric Power Company, however, said the allocation methodology still places an "unjust burden" on Load Serving Entities, citing the final bucket which would uplift costs on a load ratio share basis, thus excluding market participants not serving load.

N.Y. Strawman Would Set Parameters for Customer List Distribution

A strawman submitted to a New York working group for comment details two possible methods for utilities to allow ESCOs to access utility customer lists for the purposes of marketing competitive supply.

Under the strawman utilities could either (1) directly provide customer lists to ESCOs or (2) offer a third party confidential mailing service, where ESCOs would participate at their option. Each option would provide customers with the ability to opt-out of the list.

If the utility directly provided the customer lists to ESCOs, lists would be provided in an electronic format, through a secure supplier services portal on the utility website. The strawman recommends that lists be updated quarterly. Issues to be addressed include what information should be included (price to compare, rate class, delivery zone, contact, email address, phone number, billing address, service address, peak load, monthly consumption, account number), and whether treatment of the lists (such as information included) should be segmented by customer class. The strawman also notes that costs of the lists could be borne by ESCOs or the utility. Stakeholders have also discussed whether the utility or PSC should have the right to review marketing materials of ESCOs using the customer lists.

Under the confidential mailing service option, ESCOs would not be provided with any customer lists or information. Instead, a third party administrator would receive the lists confidentially from the utility, and ESCOs would contract with the administrator to send out their marketing materials at their own expense. A key question is whether a single administrator should be used, or whether other printers and clearinghouses (which may provide lower costs to ESCOs) could also execute a confidentiality agreement with the utility and send out ESCO materials to customers on the lists.

Briefly:

Nstar Files for 70% Lower Cost of Gas

Nstar has filed a revised cost of gas of 38¢/ therm to take effect in May, 70% lower from last summer's average cost of $1.30.

FERC Staff Questions ConEd-PJM TSA Settlement

A settlement that would allow Consolidated Edison to roll-over its current service under two grandfathered transmission contracts between ConEd and PSE&G may be inconsistent with the Commission's open access transmission policy, and does not address the question of whether the grandfathered agreements are eligible for rollover under the PJM tariff, FERC Staff said in stating that it does not support the settlement at this time (ER08-858 et. al., Matters, 2/24/08). The two transmission agreements would continue to cover a substantial amount capacity, while providing preferential service to a limited number of parties, Staff said. Additionally, Staff noted transmission capacity into and out of New York City is extremely limited, and permitting a roll-over of ConEd's service agreements could have negative impacts, such as restricting or preventing the export of In-City generation outside of New York. Staff said it would review any comments on the settlement before making a final recommendation.

Compete Recommends Federal Policy Encouraging Customer Choice

The Compete Coalition yesterday released a policy blueprint which argues that competitive markets are best suited to meet key challenges facing the electric industry, including generation and transmission infrastructure investment, reducing carbon emissions, and energy independence. Among Compete's recommendations is that federal policy should encourage states to open their markets to competitive procurement, demand response, and customer choice. Also of note is Compete's statement that: "Competitive wholesale electricity markets are beneficial to all providers of retail services and their customers. Recognizing that load serving utilities have a role to play in delivering energy efficiency, demand response and, in some cases, renewable energy, the wholesale market structure is vital to ensuring the most efficient and cost-effective utilization of these resources and the transmission grid."

Switching ***... from 1:***

Joint TDUs were most harsh in countering REPs' claims about the dangers of using estimated meter reads for the expedited switches, which the TDUs deem essential to cut costs. Concerns that customers will object to and complain about an estimated meter reading performed for the purpose of an expedited switch are unproven, TDUs said. TDUs claimed that customers who object to estimated reads do not do so because the reading is inaccurate, but because such estimates are performed in lieu of the normal on-cycle meter read, contrary to, "their expectation that an actual read is part of the normal monthly billing process and that they pay for the actual read in base rates." Since estimated reads for purposes of a switch are in addition to normal monthly actual reads (and not a monthly service customers now expect), customers will object less, TDUs contended.

The Joint TDUs also argued REPs were exaggerating the financial consequences possible under estimated reads for switches. TDUs said that a residential customer using 1,000 kWh per month consumes an average of 33.3 kWh per day. If the customer switches in the middle of the normal cycle, usage would be estimated at around 500 kWh, TDUs said. Even if the estimate was off by a full day, which TDUs said was highly unlikely, the usage "error" would be "fairly insignificant." Assuming a cost difference between the customer's new and old REP of 3¢/kWh, the cost of the error would be $1.00, TDUs said.

In contrast, the TDUs claimed that the REPs' hypothetical error of 300 kWh (a 30% error) is, "an extreme misalignment that could not and would not occur in an out-of-cycle estimate unless the customer made an extreme change in its usage pattern, such that its actual usage during the month bore little or no resemblance to its prior average daily usage." The example cited by REPs equates to the estimated reading being off by 9 days, "which is totally unrealistic," TDUs claimed.

However, the REP Coalition was steadfast in opposing the use of estimates for the purposes of a switch.

"Experience indicates that customers are less likely to pay an estimated bill than one based on actual consumption," the REPs noted.

"In addition to the adverse financial impact that estimated meter reads for switching purposes will inflict on REPs, the practice will create a significant amount of customer confusion and dissatisfaction to the ultimate detriment of the competitive retail electric market. If customers believe that a switch in retail service from one REP to another REP will always entail the risk that the customer's billing will not reflect actual consumption, it makes no difference how accurate the TDU's estimated meter read may be," the REP Coalition added.

While the TDUs suggested an end to the rescission period (as Reliant Energy did in initial comments), the Steering Committee of Cities Served by Oncor opposed any such elimination. Removing the rescission period, "is moving in the wrong direction by overtly encouraging unethical REPs to engage in slamming," Cities said.

"In addition, this may encourage REPs to engage in misleading or high pressure telephone sales tactics," Cities added, noting that the concept of a "cooling off" period is sound, particularly in the case of relatively complex products like variable priced electric service.

IDT *... from 1:*

month, in line with the 4.6% per month average churn during the year-ago period.

Consumption per meter was higher in the second quarter of 2009 compared to the year-ago period, as acquisition efforts targeted customers with higher consumption histories.

Revenues for the quarter grew to $93.9 million, a 44.3% year-over-year increase, led by a 50.6% increase in gas revenues to $53.1 million. Electricity sales were $40.8 million for the quarter, compared to $29.8 million a year ago.

Selling, General & Administrative expenses rose to $5.8 million in the quarter, a 24.5% year-over-year increase, due to greater customer acquisitions, as well as "marginally" higher per customer acquisition costs. As a percentage of revenues, SG&A expenses declined from 7.2% in Q2 2008, to 6.2% in Q2 2009.

Parent IDT Corp.'s net loss for the quarter was $62.0 million, versus $62.5 million a year ago, due to discontinued operations in other business units.