Energy Choice Matters

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Crane Sees Platform for Distributed Green Products as NRG Closes Reliant Retail Acqusition

The retail supply business is a, "management intensive, highly competitive, and intensely public business, in which mistakes and poor performance are not quickly forgotten or easily repaired," NRG Energy CEO David Crane said during an earnings call yesterday, as NRG closed its purchase of Reliant's Texas retail business at midnight today, faster than expected.

Crane said integration of NRG's real-time desk with Reliant, implementation of a unified risk management policy, and novation of Reliant's Merrill Lynch credit sleeve would commence immediately upon closure. NRG's expertise in volume and price risk management, as well as collateral management, are the strengths which it can bring to Reliant, as Crane said Reliant and other generation-short retailers have failed in such areas.

NRG outlined a two-phase integration plan for the Reliant business, with the first phase lasting through the end of 2009. The initial phase will include, among other things, a revitalized Texas commercial and industrial business approach with a "disciplined" marketing campaign. NRG will also identify and begin to realize synergies and seek to protect brand value during phase one, while managing Reliant's current hedges through the summer. NRG's jointly owned Cedar Bayou 4 combined cycle, mid-merit unit (550 MW) will begin commercial operations June 1, and will help in managing Reliant's load, NRG said.

In phase two, to begin in 2010 and last two years, NRG will reduce Reliant collateral obligations and wind down and phase out the Merrill Lynch collateral sleeve. NRG will also begin an optimal long-term hedging program for the combined company.

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Dominion Retail Earnings Fall in First Quarter

Dominion Retail's Earnings Before Interest & Taxes were $45 million for the first quarter of 2009, versus $67 million in the year-ago quarter, parent Dominion Resources said yesterday.

In terms of net income contribution, Dominion Retail's results were $15 million lower year-over-year.

Average customer count in the first quarter ticked up to 1.63 million versus 1.62 million for the quarter ending December 31, 2008. Electric customer count grew to 368,000 from 344,000 as of December 31, 2008, while natural gas customer count was steady at 621,000. Products and services customers were 641,000 versus 651,000 as of December 31, 2008.

Operating revenue from competitive retail electric sales was $160 million for the quarter, versus $111 million a year ago, mainly from the Cirro acquisition completed in the fall of last year. Operating revenue from retail gas sales declined to $490 million from $511 million in the year-ago quarter.

Competitive retail electric volumes sold were 1.4 million MWh versus 959,000 MWh a year ago. Quarterly natural gas sales were 46,800 mmcf versus 49,600 mmcf a year ago.

EBIT at Dominion Generation from its merchant plants (excluding results from utility assets) were $379 million, versus $302 million in the year-ago period. Merchant generation margin increased $41 million year-over-year.

Dominion Resources incoming CFO Mark McGettrick, currently president of Generation, reiterated Dominion's view that there is a huge risk that demand response resources bid into the New England’s Forward Capacity Auction will not show up or be able to perform as expected, which will impact the market at a future date.

Vectren Source Sees Record Earnings in Q1

Competitive retailer Vectren Source posted record earnings of $8.6 million in the first quarter of 2009, due to favorable market conditions -- an increase of $6.6 million over earnings of $2.0 million the year-ago period.

The "strong start" to the year mainly resulted from record margins from Vectren Source's variable price contracts, as gas supply costs fell more rapidly than retail pricing. Vectren Source had also locked-in margins on its fixed-price contracts by hedging over 90% of expected volumes.

Vectren Source expects margins to compress in the following quarters, as retail and wholesale pricing drop more coincidently, and competitive intensity increases.

Customer count at quarter's end was 171,000, up from 157,000 a year ago. Vectren Source said it expect to optimize about 6 Bcf of storage for the winter of 2009/10, up from about 4 Bcf in the past winter.

Vectren's ProLiance unit, which markets competitive supply to large consumers in addition to various storage and transportation services, posted slightly lower earnings of $7.0 million for the quarter, down a tick from $7.8 million a year ago. The decline reflects lower margin due to lower seasonal spreads locked in last year. Current-year seasonal spreads have improved and will be realized in the fourth quarter of 2009 and the first quarter of 2010, Vectren said.

WGL Holdings Committed to Growing Retail Business

WGL Holdings is committed to expanding its competitive retail marketing business, executives said during a call to discuss earnings released April 29 (Matters, 4/30/09). As noted yesterday, Washington Gas Energy Services added about 12,400 customers since December 31, 2008, and WGES said its current total of 206,400 is near its record high.

In particular, executives said Washington Gas Energy Services would focus on sustainable energy products and investments, pointing to its recent solar investment in Maryland, where it owns a customer-sited 150 kW system (Matters, 12/4/08). WGES is currently evaluating larger alternative energy products.

WGES' customer growth, noted yesterday, produced higher customer acquisition costs of $770,000 (after tax), from increased fees to agents plus commissions to internal sales forces, addition of temporary help to process higher contract volumes, and additional customer service expenses to handle increased customer count, WGES President Harry Warren said.

WGES, which saw lower natural gas margins in the quarter, expects such lower margins and higher marketing costs to continue into the next few quarters.

Warren noted that while the market saw several suppliers exit or scale back operations in the large commercial and industrial space late last year and earlier this year, there has been a stabilization in the large customer market in recent months. WGES has grown its electric business among large commercial customers, Warren said.

Christy Skeptical of Pa. Rulemaking to Standardize LDC Retail Practices

As it announced in September, the Pennsylvania PUC yesterday approved the issuance of a rulemaking to address several barriers to a robust competitive natural gas market, focusing on LDC business standards, practices and model agreements (Matters, 9/12/08).

The rulemaking, which had not been published as of press time, would direct LDCs to submit standard supplier tariffs to make market entry simpler, and would standardize business practices with regard to imbalance trading, tolerance bands, cash-outs and penalties, nominations, and capacity access.

A working group would be created to develop and implement communication standards and formats.

LDCs could recover associated costs in base rates.

Vice Chair Tyrone Christy used that aspect of the rule to question the value of the proposal, citing potential cost ramifications.

Although Christy said that the rulemaking will state that only "cost effective" changes will be implemented, the term is not defined.

"While some provisions may be deemed cost effective to alternative suppliers, they could be detrimental to non-shopping customers," Christy said, expressing a fear that a nonbypassable surcharge will be levied on customers to the benefit of a few marketers, but without producing any benefit to customers as a whole.

In particular, Christy was skeptical that competitive suppliers could provide value to customers (and incite migration) because LDC supply costs are set by least-cost procurements "blessed" by the Commission.

As LDCs do not make any profit on supply sales, marketers, which must tack on a profit adder to their rates, will have to find enough efficiencies somewhere in their procurement practices to undercut the LDC.

"Alternative gas suppliers have a significant hurdle here to demonstrate that savings are possible with retail natural gas choice in the residential sector," Christy said.

UGI Energy Services Sharpens Focus on Small C&Is

UGI Energy Services, which includes retail supply, electric generation, and various natural gas peaking and storage services, reported higher net income for the second fiscal quarter of 2009 of $19.6 million, up from $16.4 million in the year-ago period.

The growth was largely driven by peaking services and asset management business that benefited from colder regional weather.

Executives said the unit's retail energy marketing business continues do well with retail sales volumes at about the same level as last year. UGI said small customers have responded "favorably" to a recent winter campaign, and Energy Services has added over 2,000 new small commercial customers on LDCs in seven states over the past 12 months. UGI said its retail unit has enhanced its direct mail and telemarketing tools and capabilities to identify and win these smaller accounts.

The unit's electric generation business was hurt by lower total margin, from lower volumes due to plant outages and lower spot market prices, as well as higher operating costs.

ERCOT Says Joint WMS-TAC Meeting Supported by PUCT Precedent

A joint meeting between ERCOT's Technical Advisory Committee and Wholesale Market Subcommittee has precedent from a 2008 PUCT decision, ERCOT said in testimony regarding AEP Energy Partners' appeal of the assignment of its Oklaunion plant to the West zone.

Among other things, Commissioners have raised concerns about the procedural process used in setting the 2009 the congestion zones, Commercially Significant Constraints, and Closely Related Elements (Matters, 4/10/09). During the stakeholder process, the Board remanded the zones back to TAC, which elected to hold a joint meeting with WMS. Commissioners noted WMS, as subordinate to TAC, may have had its hands tied by convening jointly with TAC.

However, ERCOT noted that the PUCT itself ordered a joint WMS-TAC meeting last year, to expeditiously address problems related to shadow prices caps (Matters, 6/12/08). ERCOT said the joint WMS-TAC meeting on congestion zones was also scheduled due to time limits. AEP noted that it did not object to the joint meeting itself, but said the Board instructed TAC to address procedural issues rather than AEP's substantive objection to ERCOT's congestion designations.

Direct Energy also clarified that allegations that several market participants met together to discuss changes to the congestion designations that would keep Oklaunion in the West zone, rather than the North zone, are inaccurate. Direct said that while four market participants (itself, Luminant, J. Aron, and LCRA) discussed various operational concerns of the congestion zone proposals with ERCOT Staff individually via telephone, the five parties never met altogether either in person or telephonically.

ERCOT defended such individual meetings, arguing that it must have free discussion singly and collectively with representatives of electricity consumers, generators, power marketers, retail electric providers, and the many other stakeholders affected by its operations.

Luminant cautioned against changing

ERCOT's approved designations of the congestion zones because, among other reasons, many REPs offer fixed-rate retail contracts for established periods of time, with prices that are based on conditions known to the REPs at the time of the contracts. "A decision by the Commission that potentially results in the modification of the 2009 CSCs or Congestion Zones could significantly impact such fixed-rate contracts," Luminant noted.

Depending on the provisions of the retail agreements, a zone change for retail customers might result in the associated charges being passed through to the customers (frustrating customers' perception of fixed-rate contracts) or the REP may be required to bear the unanticipated zonal charges.

"In addition, a decision disrupting ERCOT's CSC and Congestion Zone determination this year may discourage market participants from appropriately hedging their contractual positions in coming years due to uncertainty in the validity of the ERCOT decision-making process," Luminant warned.

"As was seen last year, significant disruptions to the ERCOT market and retail customers can occur when market participants fail to appropriately hedge their wholesale market positions," Luminant added. Granting AEP's appeal would also encourage more appeals of ERCOT stakeholder decisions, harming regulatory certainty, Luminant said.

While AEP has protested ERCOT's decision because it is the first time it has used a post-contingency analysis in setting the zones, ERCOT explained that this year was the first year in which a Commercially Significant Constraint was a limiting element, and not a contingency element. Pre-contingency analysis is appropriate for contingency elements, but limiting elements require a post-contingency analysis, ERCOT said.

Entergy Says ERCOT Still Only Viable Option for Competition

ERCOT remains the only option for a qualified power region that would support retail competition at Entergy Texas in the foreseeable future, Entergy said in an updated transition to competition plan (Matters, 4/16/09).

The exercise may prove academic if the Texas House acts on a bill passed in the Senate which would order a stop to work on the currently filed transition to competition plan (Matters, 4/29/09).

In a bid to lower costs, Entergy's updated plan would only require that projects identified by ERCOT as needed for reliability under Entergy Texas' integration would be built, with economic projects deferred to consideration in the regional planning group. Entergy also proposed that third-party transmission service providers build, own and/or operate significant portions of the needed interconnection facilities to help address concerns regarding the potential financial strain on Entergy Texas.

When constructing only base reliability projects for ERCOT integration, Entergy reported cumulative capital costs of $640 million, with a net incremental benefit of $112 million.

Entergy's updated plan was mostly undertaken to review the Southwest Power Pool option, after Commissioners rejected the original ERCOT integration proposal as too costly. However, Entergy said SPP integration costs would outweigh benefits, and that SPP will be unable to support retail choice in the foreseeable future. Cumulative capital costs of integration (including market power mitigation) with SPP would be $1.1 billion, for a net incremental cost of $292 million.

Entergy said the stay in SERC option would still require reliability upgrades at a cumulative capital cost of $711 million, producing net incremental costs of $144 million. Entergy is agreeable to either joining ERCOT or remaining in SERC based on the Commission's policy direction, but said it needs regulatory certainty so it can move forward with system planning.

Briefly:

Start-up UnitedEnergyPartners Seeks Conn. Aggregator License

UnitedEnergyPartners LLC, a Connecticut-based start-up, submitted an application for an electric aggregation certificate at the Connecticut DPUC, for all customer classes. CEO Marckenson Joseph has been a director and manager at various sales agents/channels used by Direct Energy and MXenergy in Connecticut.

Integrys Energy Services Earnings Fall on Derivative Accounting
Earnings at Integrys Energy Services decreased $80.7 million in the first quarter of 2009, from earnings of $51.6 million for the year-ago period to a net loss of $29.1 million. The results were driven mostly by non-cash impacts of derivative accounting, parent Integyrs Energy Group said in advance of an investors call today. Integrys said it is targeting an announcement regarding Integrys Energy Services and its divestiture by the end of the third or early fourth quarter 2009. Integyrs is targeting a full divestiture of the Energy Services unit, but said it could be achieved in one transaction or multiple transactions.

National Fuel Resources Net Income Flat
National Fuel Resources, the competitive marketing segment of National Fuel Gas Company, reported flat earnings of $5.6 million for the second fiscal quarter, after the market close. Higher margins mainly due to increased volumes were offset by higher operating expenses and higher state income taxes. A conference call is scheduled for today.

TXU Launches Online Store for Efficient Products
TXU Energy became the latest competitive retailer to offer energy-saving products through a dedicated online energy store, through a partnership with EFI, a distributor of energy efficiency-related products

Mich. PSC Accepts Withdrawal of Accent Electric License
The Michigan PSC approved Accent Energy Midwest's application to relinquish its alternative electricity supplier license.

Mich. PSC Approves Edison PPA with Heritage Wind Farm
The Michigan PSC approved Detroit Edison's application to enter a 20-year PPA with Heritage Stoney Corners Wind Farm for 14-16 MW of wind-powered electric capacity, energy, and associated renewable and environmental benefits (including RECs), dismissing objections from several merchant generators (Matters, 4/13/09). The contract was signed outside of a competitive RFP. The PSC said that the contract is reasonable and prudent and provides opportunities that may not otherwise be available or commercially practical, which is the statutory standard. The statute's use of the word "may" in describing whether other opportunities are available to meet the same provisions of the PPA led the Commission to dismiss arguments from the Michigan Wholesale Power Association, which said that Edison had not proved the PPA represented terms otherwise unavailable in the current market. Additionally, the PSC said a contested case was not required, adding that, "[i]f every contract must be subjected to a contested case hearing there is no possibility of meeting the tight timeframes for the Commission's work under Act 295."

CPS Tuttle Units Not Needed for Reliability
ERCOT confirmed its initial determination that the three Tuttle units which CPS Energy intends to retire are not needed for reliability, and will not be offered Reliability Must Run agreements (Matters, 2/26/09). The three units at the Tuttle generating station are gas-fired and almost 50 years old.

NRG ... from 1

Additionally, phase two is when NRG expects to implement one ore more initiatives dedicated to distributed green energy, as Crane said Reliant's 1.7 million customer base provides an attractive platform to mass market alternative energy products. Crane cited rooftop solar as one potential candidate, as well as products made possible through advanced meters, though NRG is still evaluating in which areas it has a competitive advantage.

Crane said NRG will become very active, very soon in this space, as the company needs to move quickly to capture the opportunity.

Reliant is expected to contribute 10% of NRG EBITDA going forward, NRG said.

Turning to NRG's quarterly results, the generator posted income from continuing operations of $198 million for the first quarter, up from $45 million a year ago. The 2009 results included $271 million in unrealized mark-to-market gains, versus $160 million in unrealized mark-to-market losses in 2008.

Adjusted EBITDA, excluding mark-to-market impacts, was $477 million for the first quarter of 2009, compared to $525 million in the prior year's first quarter. Lower results in the Northeast, South Central and West weighed improvements in NRG's Texas operations. Total generation declined by 12% and 39% in NRG's coal and gas fleets, respectively, as lower demand along with increased wind generation in Texas and a declining commodity price environment led to lower power prices and generation.

Texas adjusted EBITDA increased by $28 million to $320 million in the first quarter of 2009 compared to $292 million in 2008. A $4.50/MWh increase in realized prices from hedges versus 2008 drove a $45 million increase in results, which was offset by a 6% decline in output due to displacement by wind.

NRG's Northeast assets posted lower adjusted EBITDA of $106 million during the first quarter of 2009, down $26 million year-over-year. Despite the declines in power generation and energy prices for the region, NRG's hedging program and higher contract margins on load obligations resulted in a $4 million improvement in energy margins in the first quarter of 2009 compared to 2008. However, these gains were offset by a $14 million drop in New York capacity revenues, from lower prices due to a lower installed reserve margin and in-city mitigation rules that were put into effect in March of 2008.

Adjusted EBITDA for NRG's West fleet declined by $16 million to $1 million primarily due to the expiration of a tolling agreement at the El Segundo facility in April of 2008, and increased planned major and normal maintenance activity.

Exelon Developments

NRG Energy CEO David Crane said that Delaware law does not contain an affirmative obligation for the Board of Directors to schedule an annual shareholder meeting within 13 months of the previous meeting, in response to a question from an analyst. Exelon said it intends to propose its slate of new directors at the next annual meeting, which is expected in May or June if it is held within 13 months of last year's meeting. However, Crane noted that his understanding of Delaware law is that while it allows a shareholder to petition a Delaware court to set a date if a meeting hasn't been held in 13 months, the law does not place an obligation on the Board to hold a meeting absent such a petition.

Meanwhile, a ALJ at the PUCT deemed Exelon's amended application for approval to acquire NRG sufficient, over arguments from Staff that the lack of a definitive closing date for the merger makes the application insufficient under PURA, since it hinders the ability to calculate whether the combined firm will exceed 20% of the ERCOT market (36555, Matters, 4/24/09). However, the ALJ noted that in Duke Energy's application to acquire Catamount Energy (35836, Sept. 11, 2008), the Commission approved a transaction whose closing data was provided as, "as soon as all regulatory approvals have been obtained and no later than the third quarter of 2008." Exelon similarly provided its closing date in relation to a quarter (the fourth quarter of 2009), and thus the application is sufficient.