Energy Choice Matters

May 4, 2009

First Choice Results Better than Expected, Fueled by Higher Margins, Commercial Growth

Retail market bad debt levels won't be adequately addressed until the PUCT makes some real changes that keep customers from skipping out on REPs without paying their bills, PNM Resources CEO Jeff Sterba said in discussing better than expected results at First Choice Power.

First Choice reported ongoing earnings of $6.8 million for the first quarter, up from $2.2 million a year ago. GAAP earnings were $7.0 million, compared with losses of $24.1 million a year ago, with the year-ago losses including speculative trading activities totaling $30.3 million after tax.

The improvement was driven by a $21.7 million increase in margins, and growth in the commercial segment, though overall customer count was down 10% versus the year-ago period. Realized margins were up largely due to lower purchased power costs, as this year's purchased power prices averaged about $62/MWh, versus $85/MWh a year ago.

Sterba declined to give specific margins given the current competitive market conditions in ERCOT, but said First Choice expects margins to return to the normal low- to mid- $20/MWh range in the next year. Margins in the first quarter were "significantly higher" than those traditional margins.

The signed margin for commercial customers in the first quarter of 2009 is almost double what it was a year ago, Sterba said. Additionally, First Choice focused efforts on converting month-to-month customers to term customers, and reported 75% of residential customers are now under term contracts.

Bad debt levels, another focus area for First Choice, were up year-over-year at $14.3 million versus $3.6 million a year ago, due to higher average final bills, higher default rates, overall

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Expedited Switching Proposal Contains Limit on Estimated Meter Reads

ERCOT TDUs would be required to perform actual meter reads for 80% of meter reads requested for the purpose of switch in a month, starting January 1, 2010, under the PUCT Staff's proposal for adoption to expedite the retail market switching timeline (36536, Matters, 3/6/09).

Staff's revised proposal maintains two types of meter reads, but uses new language for clarity. TDUs will either perform a Standard Meter Read for the Purpose of a Switch, which is the new accelerated read within four business days of the first available switch date; or a Self-Selected Meter Read, which is a read on a specific date requested by the REP. The process will allow switches to be completed within seven days.

Under the proposal, TDUs would be required to perform actual meter reads (instead of estimates) for at least 80% of switches in a given calendar month and at least 95% of reads in a calendar year, starting January 1, 2010, and exclusive of remote meter reads using advanced meters. The mandate would be phased in, with TDUs required to perform actual meter reads for at least 70% of the standard meter reads in a calendar month immediately upon the rule taking effect.

Staff's proposal also maintains a modified ERCOT postcard, which de-emphasizes cancellation procedures. The new notice will contain the names of the customer's new REP and old REP, with phone numbers for each, and will also list the date by which the customer must cancel the switch

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Margins Rebound at TXU Energy

Margins at TXU Energy have recovered from lows seen in the third quarter of 2008, and are now in the middle of its target 5-10% range, TXU CEO Jim Burke said during an earnings call Friday.

However, Burke expects to see margins continue to be tenuous as pricing pressure continues in the ERCOT market. TXU retail prices for new customers and those on month-to-months plans are down 10-15% since the third quarter, Burke noted.

Though TXU claimed it had its seventh consecutive quarter of increased residential customer count (based on 3% growth year-over-year), residential customer count actually dropped slightly versus the quarter ending December 31, 2008, from 1.932 million to 1.930 million. Small business customer count grew to 275,000 from 257,000 at the end of 2008, while TXU saw another decrease in larger customer count, falling to 24,000 from 25,000 at the end of 2008. Total customer count grew to 2.23 million from 2.21 million as of December 31.

During the quarter, TXU said it implemented a new customer information system for its residential customers, with implementation for business customers occurring in the second quarter.

Net income for Energy Future Holdings' competitive segment, which includes TXU as well as Luminant, was $558 million, versus a loss of $1.2 billion a year ago, mainly on non-cash hedging gains.

Selling, General & Administrative expenses at EFH's competitive segment increased $20 million to $173 million in 2009. The increase reflected $5 million in higher costs associated with the transition to the new retail customer information management system, $5 million in higher retail bad debt expense, $5 million in higher costs related to consulting and employee-related expenses in generation and wholesale operations, and $2 million in costs related to the nuclear generation development joint venture.

TXU Retail electricity sales volumes (GWh):

	1Q 09	1Q 08	% Change
Residential	5,880	6,115	(3.8)
Small business (< 1 MW)	1,722	1,693	1.7
Large business	3,305	3,339	(1.0)
Total retail electricity	10,907	11,147	(2.2)

Average volume (kWh) per retail customer:

	1Q 09	1Q 08	% Change
Residential	3,059	3,281	(6.8)
Small business (< 1 MW)	6,270	6,234	(0.6)

BGE Asks to Share Customer Lists with Suppliers

As tipped by Matters (Matters, 4/9/09), Baltimore Gas & Electric formally requested approval from the Maryland PSC to distribute mass market customer lists to electric and natural gas suppliers.

The lists would contain the customer's name, billing address, service address, account number, rate class, historical usage for the prior twelve months, Standard Offer Service (SOS) type, and fuel type. Customers could opt-out of providing the information, and will be notified of their ability to opt-out on bill messages and BGE's website. Customers will be able to opt-out by calling BGE's call center or through its website.

"The provision of customer lists to suppliers will enhance the opportunities for suppliers to communicate with Maryland customers about their offerings. This will allow suppliers to engage customers directly to inform customers of alternatives to SOS," BGE said.

"Approval of the distribution of customer lists will be perceived as a choice-friendly gesture that will presumably attract a greater number of suppliers to the Maryland market, expanding even more the customers' options to choose among suppliers," BGE added.

A customer list provision was included in the original RM 17 language, but dropped after the Joint Committee on Administrative, Executive, and Legislative Review opposed the provision in 2006.

Realized Retail Margins Higher at Integrys Energy Services

Realized retail gas and electric margins were up at Integrys Energy Services, but a $91.2 million decrease in margin due to non-cash derivative and inventory accounting activities masked results. As reported Friday (Matters, 5/1/09), Energy Services posted a net loss of $29.1 million for the quarter, versus net income of $51.6 million a year ago, due to the hedging impacts.

Total Energy Services gross margin decreased from $130.8 million a year ago to $16.3 million.

However, realized retail natural gas margins grew $11.0 million to $40.6 million for the quarter. On the retail electric side, realized margins grew $6.3 million year-over-year, to $23.7 million for the quarter.

Realized retail natural gas margins for volumes delivered were $0.42/Dth in the quarter, up from $0.28/Dth a year ago.

Retail electric realized margins were $5.93/MWh versus $4.40/MWh a year ago.

Higher per-unit margins resulted from the restructuring of retail contracts in 2008, in order to reflect increased business risk and financing costs.

Operational expenses at Energy Services grew by $5.6 million from higher bad debt and higher broker commissions.

As first noted by Matters Friday, Integrys is expecting to make an announcement regarding Energy Services' divestiture by the end of the third or early fourth quarter 2009.

Integrys Energy Group CEO Charlie Schrock told investors it was too early to get into specifics or preview the value Integrys expects to receive from the sale, but said early indications show enough interest that Integrys will be able to achieve its preference of a full divestiture of the marketing unit, although it has contingency plans in place for a wind down absent a transaction for all of the unit's assets.

Schrock noted that the sales may be completed in separate pieces, particularly as a buyer interested in the unit's marketing book may not desire Energy Services' generation portfolio, or another buyer may only value the generating assets, which do not carry the same collateral requirements as the retail book.

As the merchant power plants do not place the same drain on parent capital that the retail book does, Integrys said it has some flexibility in disposing of those assets.

Integrys said the generation assets account for a modest percent of Energy Services' income, at most 10%.

Integrys expects to recover roughly $600 million in capital by divesting Energy Services.

A complete divestiture may be closed by the end of the year, depending on regulatory approvals.

Energy Services says it has stopped booking new business for all practical purposes, though some existing customers retain the right to fix their prices over the terms of their contracts, which represented the majority of Energy Services' contracting activity.

PPL Energy Supply Earnings Flat

Net income for the Supply segment at PPL Energy Supply dipped slightly in the first quarter of 2009 to $104 million from $106 million a year ago, mainly on lower margins in the eastern U. S. which offset gains in the West.

Generation related margins for the eastern U. S. fell $18 million to $297 million, while marketing and trading margins for the East fell $10 million, to $15 million for the quarter. The generation-related decrease was primarily due to 10% higher average baseload generation fuel prices, primarily from higher coal prices. Lower marketing and trading margins primarily stemmed from lower Financial Transmission Rights results, partially offset by higher margins on full-requirements supply contracts.

In the West, generation margins increased $12 million to $84 million, while western marketing and trading margins increased $10 million to negative $1 million.

Total domestic gross energy margins fell $6 million to $395 million.

PPL said its Supply unit had 86% of its output hedged for 2010 (a 7% increase from the previous quarter), with over 90% of its baseload output hedged. The Supply unit is 55% hedged in 2011 and 34% hedged in 2012.

As announced previously, PPL said the availability of federal economic stimulus incentives has led it to pursue targeted asset additions, such as expansion of hydro units in Montana and Pennsylvania.

At PPL's regulated Pennsylvania utility, PPL reported about 10% of its customers have enrolled in PPL's pre-payment plan designed to blunt the rate increase expected when rate caps expire Jan. 1, 2010.

Maryland Utilities Post New SOS Rates

Baltimore Gas & Electric, Pepco and Delmarva filed various new SOS rates to take effect either June 1 or October 1, depending on SOS type.

All prices in ¢/kWh

BGE

Schedules R, ES
October 1 - May 31, 2010: 11.080

Schedule GS
Type II: June 1 - Aug. 31, 2009

Peak	12.034
Intermediate	8.300
Off-Peak	7.481

Schedules GL, P
Type II: June 1 - Aug. 31, 2009

Peak	12.047
Intermediate	8.150
Off-Peak	7.773

Pepco

Schedule R
October 1 - May 31, 2010: 11.579

Schedule R-TM
October 1 - May 31, 2010

On Peak	11.935
Intermediate	11.749
Off Peak	11.162

Schedules GS, EV, T
Type I: October 1 - May 31, 2010
11.523

Schedule MGT LV II
Type II: June 1 - Aug. 31, 2009

On Peak	9.864
Intermediate	9.226
Off Peak	8.992

Schedule MGT 3A II
Type II: June 1 - Aug. 31, 2009

On Peak	9.725
Intermediate	9.097
Off Peak	8.866

Delmarva

Schedule R
October 1 - May 31, 2010: 10.3587

Schedule R TOU-ND
October 1 - May 31, 2010:

On Peak	10.3587
Off Peak	10.3587

Schedule SGS-S, LGS-S, TN
Type I: October 1 - May 31, 2010
10.4619
Type II: June 1 - Aug. 31, 2009
8.6260

Schedule LGS-S, GS-P
Type II: June 1 - Aug. 31, 2009

On Peak	8.6260
Off Peak	8.6260

ComEd Says Procurement Produces Lower Prices, Working on Retail Rate Filing

Commonwealth Edison estimates that average residential customer bills may decrease by about 7.5% starting June 1 as power bought during a recent Illinois Power Agency procurement is blended with existing supplies. ComEd said it is working on an Illinois Commerce Commission filing containing rate class specific prices, which is expected to be filed today.

The Citizens Utility Board and Attorney General Lisa Madigan were quick to credit the Illinois Power Agency for the reduction compared to rates seen in the formerly used descending clock auction, though wholesale power prices have dropped substantially since the original auction.

The ICC said winning bidders in the April 29 procurement were American Electric Power Service Corporation, Cargill Power Markets, Constellation Energy Commodities Group, Edison Mission Marketing & Trading, Exelon Generation, J.P. Morgan Ventures Energy, MidAmerican Energy, Morgan Stanley Capital Group, NextEra Energy Power Marketing, and Sempra Energy Trading.

On-peak load weighted average prices from the winning bids ranged from \$33/MWh to

$53/MWh depending on month. Complete results may be found on the ICC's website at http://www.icc.illinois.gov/downloads/public/en/Public%20Notice%2009-04-29%20ComEd%20Std%20Products%20RFP%20Final.pdf

PUCT Staff Updates POLR Proposal

PUCT Staff filed an updated proposal for adoption to implement the new POLR rule, incorporating language to distribute proceeds from a defaulting REP's letter of credit to pay the deposits of low-income customers transitioned to POLR service (Matters, 4/23/09).

As previously discussed, voluntary POLRs would have first priority on such funds, to be used to pay the deposit requirements of customers enrolled in the LIDA program. Any remaining funds would then be applied to pay LIDA customer deposits for non-volunteer POLRs.

If the disbursement from the letter of credit does not satisfy the customer's deposit requirement, the POLR may require the customer to pay the difference as a deposit, provided that the POLR shall divide the deposit payment requirement into two installment payments, with the letter of credit disbursement considered part of the initial installment. If letter of credit disbursement is at least 50% of the deposit amount, the POLR may not request an additional first deposit installment.

Additionally, a POLR may not request payment of any remaining difference between the deposit amount and the letter of credit disbursement sooner than 40 days after the mass transition date.

The proposal for adoption does not contain any other substantive changes from the previous draft.

Pa. PUC Releases Latest Estimate of Post-Cap Rates Under Current Conditions

The average Pennsylvania residential customer would see a 10% rate increase upon the expiration of rate caps at four of the state's utilities on Jan. 1, 2011, under the latest projections from the Pennsylvania PUC, based on recent market pricing. That's about one-third of the increase projected at the end of last year. All customer classes at PECO would see a decrease in pricing under today's market prices (see below)

Estimated Rate Impact at End of Rate Cap Period, Using Today's Market Price

Residential

Market Date	Met Ed	PECO	Penelec	Allegheny	Average
3/30/2009	22.7%	-7.4%	15.9%	7.3%	9.9%
12/30/2008	36.9%	1.0%	29.3%	36.0%	25.2%

Commercial

Market Date	Met Ed	PECO	Penelec	Allegheny	Average
3/30/2009	25.4%	-13.1%	14.0%	6.2%	9.2%
12/30/2008	44.0%	-2.0%	31.8%	41.9%	29.1%

Industrial

Market Date	Met Ed	PECO	Penelec	Allegheny	Average
3/30/2009	24.7%	-10.0%	18.3%	0.3%	10.9%
12/30/2008	45.0%	2.7%	39.9%	48.3%	33.0%

Briefly:

NRG Says Price Cuts Coming at Reliant

NRG Energy said it intends to cut prices at its new Reliant Energy subsidiary, perhaps as much as 10%. NRG CEO David Crane said the reduction should take place almost immediately for new products and customers not on term contracts. As noted during Thursday's earnings call (Matters, 5/1/08), Crane touted Reliant's 1.7

million customer base as a platform for an entire class of distributed generation and retail alternative energy technologies, including smart meters, solar rooftop installations and electric vehicles. Reliant will continue to function as a self-contained business unit under NRG Texas, which is run by Kevin Howell, Executive Vice President of NRG and President of NRG Texas. Jason Few, previously Reliant's Senior Vice President, Mass Markets & Operations, has been named President, Reliant Energy and Senior Vice President, Retail for NRG, reporting to Howell.

Columbia Gas Says Billing Regs Should only Cover Commodity Costs

Columbia Gas of Maryland urged the Maryland PSC to adjust proposed rules for retail gas market billing (RM 35) so that consolidated billing and purchased receivables are only required for suppliers' commodity costs, not other products offered by suppliers. Columbia said that absent the changes, its current rate ready consolidated billing system would require costly upgrades to accept other products offered by suppliers. Additionally, limiting the purchased receivables to commodity costs will prevent customer termination for failure to pay for other services purchased from the supplier, such as HVAC or energy efficiency services.

Pepco, Delmarva File for Supply Bad Debt Surcharge on Distribution Rates

Pepco and Delmarva applied at the Maryland PSC to implement a bad debt surcharge in distribution rates, which would recover uncollectibles associated with certain SOS supply costs as well as delivery service. Combined uncollectibles for SOS and delivery service at Pepco for the period April 2008 through March 2009 exceeds the current allotment in rates by $5.5 million (76%), while the figure is $3.6 million (238%) at Delmarva. The utilities further noted that RM 17's requirement to either purchase supplier receivables, or pro-rate partial payments between supply and delivery charges, will exacerbate bad debt levels, as will temporary customer termination protections recently adopted.

NiSource Reports Weaker Competitive Marketing Activity

NiSource reported that its "Other" segment, which mainly consists of competitive gas marketing activities but also includes distributed generation, posted an operating loss for the quarter of $1.4 million, versus an operating loss of $0.5 million a year ago. The wider loss was due to lower net revenues from commercial and industrial gas marketing activities, NiSource said.

Constellation NewEnergy to Supply GSA

Constellation NewEnergy has signed a two-year electric and renewable energy supply agreement with the U. S. General Services Administration (GSA) covering more than 150 federal agency and institutional customer accounts in Washington, D. C. The contract covers 1.8 million MWh annually, and calls for 5% of the supply to be renewable, which CNE will meet through 90,000 RECs annually.

Ameren Merchant Earnings Up

Core (non-GAAP) earnings for Ameren's non-rate regulated generation segment were $85 million in the first quarter of 2009, versus $80 million in the first quarter of 2008. The increase was mainly driven by higher realized margins reflecting proactive forward sales of 2009 generation in prior years and lower plant operations and maintenance expenses. GAAP earnings from non-rate regulated generation operations were $93 million, compared to $78 million in the first quarter of 2008, driven by the aforementioned margins as well as non-cash hedging gains. Ameren said it is exploring the possible sale of three of its smaller merchant assets, the coal-fired Meredosia and Hutsonville plants and the Grand Tower combined cycle natural gas plan.

LS Power Cites Choice Cap in Shelving Michigan Plans

LS Power shelved plans for a 750-MW coal plant in Michigan citing, among other reasons, last year's re-regulation legislation which limited potential customers for the merchant plant's output. LS Power also said the current economic conditions and a lengthy environmental permitting process prompted the decision.

Former Reliant Now RRI Energy

With the sale of its Texas retail book and trade name Reliant Energy to NRG Energy closing Friday (Matters, 5/1/09), the former Reliant said it has adopted the name RRI Energy for its 14,000 MW fleet of merchant generation. RRI said it has completed its review of strategic alternatives which led to the sale of the retail business, noting an elimination of $2 billion of current collateral obligations from the divestiture. The sale also reduced RRI's gross debt to $3.1 billion and net debt to $1.5 billion on a pro-forma basis, and improved the company's liquidity position, resulting in cash on hand of $1.6 billion and total available liquidity of $2.1 billion on a pro-forma basis.

FERC Accepts PJM Import/Export Pricing Plan

FERC conditionally approved PJM's application to implement a new pricing methodology applicable to imports and exports, particularly from non-organized markets (ER09-369, Matters, 12/3/08). The Commission accepted PJM's High/Low pricing method, as well as its Marginal Cost Proxy Pricing method, which is conditioned, after a sunset date, upon a balancing authority executing a congestion management agreement with PJM -- a provision protested by Duke Energy and Progress Energy (Matters, 12/26/08). However, FERC found PJM's proposal to be acceptable since a congestion management agreement is ultimately needed to provide PJM with more complete information to identify potential loop flows. Still, PJM has yet to establish procedures for obtaining a congestion management agreement, and FERC directed PJM to revise its tariff to provide that it will negotiate in good faith with any balancing authority area requesting a congestion management agreement. Under such a request, PJM will file with FERC an unexecuted congestion management agreement within 90 days of such a request to provide parties seeking Marginal Cost Proxy Pricing a reasonable period of time to negotiate a congestion management agreement.

FERC Approves Aquila MISO Exit

FERC granted Aquila's withdrawal from the Midwest ISO, after Aquila agreed to pay MISO $1.5 million to resolve a protest from MISO. Aquila intends to join SPP.

PUCT Posts Final REP Certification Language

The PUCT posted final language for the new REP certification rule in docket 35767.

First Choice ... *from 1*

economic conditions and an increased churn. The level is down from the end of last year, however, but is still higher as a percent of revenue than where it needs to be, Sterba said.

Although the Commission has started to take a look at the issue of so-called REP hopping, First Choice does not expect any potential regulatory changes to impact its performance in the near term, meaning bad debt will trend down, but still remain too high for PNM's liking. The bad debt risk is why First Choice is still a "work in progress" despite a good start to the year, executives said.

Still, improved First Choice results are expected to increase cash earnings (net of interest and taxes) by $50 million to $58 million for 2009. Last year, First Choice Power had negative cash earnings of $39 million.

Though First Choice's customer count was down 10% year-over-year, it increased when compared to the quarter ending December 31, 2008. Customer count now stands at 246,700, versus 237,400 as of the end of 2008.

PNM's share of merchant generator Optim Energy's net ongoing loss was $2.0 million for the quarter, versus a loss of $0.2 million a year ago. PNM's equity in the net GAAP earnings of Optim Energy was $0.8 million versus losses of $15.2 million a year ago. A scheduled outage at the Twin Oaks Power facility and higher operating costs negatively affected the 2009 quarter's results.

Expedited Reads... *from 1*

with ERCOT for it not to take effect. However, the postcard will no longer include detailed cancellation instructions.

Staff's preamble states that the Commission believes most of the switches that occur in the market are legitimate, and cancellation information would not be relevant for the vast majority of customers.

Staff dismissed concerns raised by REPs that the expedited switching process will create a potential for customers to game the system in cases of disconnection for non-payment. With the accelerated switching process and the required 10 days' notice for disconnection, a customer may be able to switch REPs before the disconnection is performed.

However, Staff said that the benefit of a shortened switching timeline for customers outweighs any impact of gaming on REPs by non-paying customers. Staff noted REPs have safeguards against non-payment in the form of customer deposits and may have other recourse through credit reporting agencies and collections processes.