Energy Choice Matters
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Margins Significantly Higher at Constellation Customer Supply Unit

Constellation's customer supply business recorded higher gross margin of $163 million for the first quarter of 2009, up from $82 million a year ago, mainly on gains in its wholesale supply business, and higher margins in new contracts.

During an analysts call, Constellation CFO Jack Thayer said that the relative competitive position of the customer supply business is "quite strong," with margins stronger than anticipated.

Despite including higher credit costs in customer supply rates, Constellation COO Kathleen Hyle added that the unit has seen "significant increases" in margins, as the supply unit continues to be "judicious" in the types of products offered and the types of customers enrolled, consistent with its previously announced strategy to scale down the business. Consistent with that philosophy, retention rates among retail electric customers fell below 50% in the first quarter, from north of 60% in the fourth quarter of 2008. Customer supply's retail gas retention rate rebounded to 95% in the quarter, from just under 90% in the fourth quarter.

Retail electric gross margin grew to over $10/MWh, from under $9/MWh in the fourth quarter. Retail gas gross margin exceeded 30¢/Dth, up from about 24¢/Dth in the fourth quarter.

The retail supply business has seen about 3% demand destruction, on average.

Constellation also expects to increasingly serve load obligations with owned generation, and is evaluating aligning the relative sizes of the retail supply and merchant generation business units.

Executives said they are also actively pursuing structures to address the unique credit and liquidity aspects of the customer supply business, citing its gas supply agreement with Macquarie as an example.

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Pa. PUC Posts Draft Rules for Gas Imbalances, Cash-Outs

The Pennsylvania PUC posted draft rules related to retail natural gas business standards and practices, which were voted on at last week's Commission meeting (Matters, 5/1/09).

Under the proposed language, LDCs would be required to "facilitate" retail supplier imbalance trading, and a supplier's customers' natural gas usage would be balanced against supplier deliveries on the same monthly schedule. For computational purposes relating to balancing, an LDC would be required to eliminate separate pooling for a supplier's interruptible customers so they are deemed to be in the same operating pool.

LDC tolerance bands would be required to provide for a deviation in the volume of gas delivered of no less than 10% of the volume nominated by a supplier, thus establishing a tolerance band that spans 90% to 110% of the volume of gas nominated.

Furthermore, LDCs would be required to cash out imbalances that fall within the 10% tolerance band at 100% of the gas daily average at the applicable index for the pool level. Outside the 10% tolerance band, a multiplier of 110% for under-deliveries and 90% for over-deliveries would apply, except during periods of gas shortage requiring the issuance of an operational flow order to protect the safe and reliable operation of the LDC system.

LDCs would be required to support all four NAESB nominations cycles and support the timely cycle and at least one intraday cycle.

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AARP Says Shorter Disclosure of ERCOT Offers Would Save Nearly $1 Billion

Requiring the public disclosure of ERCOT balancing energy bid data within 48 hours could save consumers $956 million annually, AARP said in citing a report by McCullough Research.

Currently, most bid data is released 60 days after the operating day, though the highest-priced offer dispatched by ERCOT and the name of the entity submitting that offer is released within 48 hours. The 60-day standard is shorter than the original six-month delay, resulting from a contested case at the PUCT (31972). Additionally, the Commission's 2006 order in docket 31972 contemplates that the disclosure period will be shortened to 30 days under the nodal market.

McCullough's report said that the maximum balancing energy bid increases by 69¢/MWh for every day that the bids' publication is delayed. Reducing the posting delay from 60 days to 0 days would lower maximum bids by $42/MWh, and average bids by $3.20/MWh, McCullough claimed.

McCullough also cited Australia's competitive market which posts offer information after two days.

The threat of public identification, McCullough reasoned, will deter unwarranted, high offers by generators averse to bad publicity. However, it appears some generators are already reluctant to bid near the legitimate offer cap even under the PUCT's small-fish-swim-free construct, as several generators have claimed that negative media attention paid to high bids shies generators away from making such bids, even when conditions warrant. Accordingly, such bidding behavior is inhibiting scarcity pricing and the functioning of the energy-only resource adequacy approach, some generators have claimed, seeking to justify their desire for a capacity market (see Matters, 2/18/09).

FirstEnergy Solutions Retail Sales to Non-Affiliates Higher

Net income at FirstEnergy's Competitive Energy Segment was $155 million for the first quarter of 2009, up from $87 million in the year-ago period.

Results were driven by increased sales into the Midwest ISO market, made possible by decreased usage and a smaller share of incumbent supply obligations at the FirstEnergy Ohio utilities.

During the quarter, FirstEnergy Solutions only supplied 75% of Ohio affiliate utility load, versus 100% a year ago, after a December competitive bidding process procured supplies for an interim period. FirstEnergy Solutions also recorded lower purchased power expenses related to various supply agreements with affiliate utilities, due to lower customer usage.

FirstEnergy Solutions sales to competitive retail customers (excluding sales to affiliate utilities) were up in the quarter, at 858,000 MWh from 643,000 MWh a year ago.

During an earnings call, executives said FirstEnergy Solutions has signed 20 communities for governmental aggregation, as it locks down its retail strategy ahead of a competitive bidding process which will set generation rates at the FirstEnergy Ohio utilities.

FirstEnergy Solutions is also weighing accelerating scheduled maintenance at its power plants so that unavailability coincides with today's lower market prices.

RBS-Sempra JV Earnings Nearly Double on Gas, Oil Trading

The RBS-Sempra Commodities joint venture, "hit the ball out of the ballpark" in first quarter earnings, nearly doubling net income attributable to Sempra to $114 million from $59 million a year ago. Total distributable income for the joint venture for the first quarter of 2009 was $154 million.

Results were mainly driven by natural gas and oil marketing. The joint venture also saw "good performance" in metals and power, Sempra said.

Earnings at Sempra Generation were down a tick in the quarter, at $43 million versus $45 million a year ago, on higher maintenance levels and associated downtimes.

Although there's no doubt that generation asset prices are currently depressed, Sempra CEO Donald Felsinger said that Sempra's focus remains on gas infrastructure for long-term growth, and that it is not interested in generation

acquisitions.

RBS-Sempra Commodities also named Kaushik Amin as CEO. Amin spent 14 years at Lehman Brothers, where he was most recently the Global Head of Liquid Markets, with direct responsibility for the Rates, Foreign Exchange, Emerging Markets and Commodities businesses.

Decreased Allegheny Volumes Offset Higher Margins in Pennsylvania, Maryland

Net income at Allegheny Energy's competitive Generation and Marketing segment fell $14.7 million in the first quarter, from $102.4 million in the year-ago period to $87.7 million for the first quarter of 2009. Adjusted earnings for the competitive segment were also down, at $67.9 million versus $102.4 million a year ago.

The decline mostly resulted from decreased generation volumes and the elimination of an intercompany transfer payment. Forced outages were higher in the quarter, and Allegheny also took the opportunity to conduct additional scheduled maintenance since wholesale prices were unattractive.

Although round-the-clock prices at the PJM Western Hub fell nearly 30% compared to the first quarter a year ago, Allegheny said it was largely protected from the decline during the first quarter since it had hedged 90% of its power.

Higher generation rates in Pennsylvania and Maryland also offset some of the decline in generation output. On a pre-tax basis, higher Maryland generation rates, primarily from the move to market-based residential rates, contributed an additional $23 million in income versus the 2008 quarter. A nearly 20% increase in Pennsylvania generation rates, offset by the expiration of a $14 million earnings benefit related to Pennsylvania's stranded cost recovery, produced an additional $31 million in earnings, pre-tax, versus the year-ago period.

Allegheny said its Allegheny Energy Supply subsidiary won about one-third (650,000 MWh) of the load available in affiliate West Penn Power's recent April default service procurement for the period starting January 1, 2011. The auction will produce a $10/MWh increase in energy margin in 2011 versus 2010, excluding a decrease in PJM capacity prices.

Allegheny also announced it was selling its Virginia distribution assets to Rappahannock Electric Cooperative and Shenandoah Valley Electric Cooperative for $340 million, due to the assets' small size and return compared with the attention management has to devote to the operations. For the year 2008, Allegheny's retail revenues and energy sales in Virginia were approximately $182 million and 3.1 million MWh, respectively. The service area includes 102,000 customers.

Allegheny is retaining its transmission assets in Virginia.

Duke Commercial Power Adjusted Earnings Higher on Ohio Security Plan

Adjusted EBIT for Duke Energy's Commercial Power segment for the first quarter was up $4 million year-over-year to $103 million, driven by $20 million in improved margins from sales to native customers which were included in Duke Energy Ohio's electric security plan. The margin gains were offset by maintenance and other accounting expenses. Including the impacts of hedging, EBIT was down for the quarter at $114 million, compared to $146 million in the first quarter of 2008.

Commercial Power also saw a positive adjusted EBIT contribution of $2 million from its Midwest gas-fired assets, due to higher generation volumes and PJM capacity revenues. Non-native margins were principally flat when compared to last year.

Commercial Power's wind portfolio stands at 500 MW, and Duke said it is well positioned to bring 250 MW of wind energy online annually. Duke is interested in purchasing distressed wind farms or similar assets, and has the capital to complete purchases. But broader M&A activities are being hindered by uncertainty over carbon as well as current stock price levels, Duke said.

Duke reported that although its Ohio electric utility has experienced some customer migration as prices have decreased, the level of customer switching has not been significant.

Large Customers Protest XML Use in MISO Emergency Demand Response

As the Midwest ISO expected in its initial filing (Matters, 4/15/09), its proposal that Emergency Demand Response (EDR) participants be capable of both receiving and acknowledging EDR Dispatch Instructions from MISO via an Extensible Markup Language (XML) interface has drawn protests from large customers. MISO made the proposal in its filing to permit Day-Ahead Emergency Demand Response offers (ER09-991).

The Coalition of Midwest Transmission Customers and other industrials said that the "significant" up-front costs of the XML requirement will deter demand response participation. Telephonic communications are currently used both for MISO to send, and for participants to receive, dispatch instructions. Under MISO's XML proposal, participants must have an https listener on their site with a digital certificate.

The large customers noted that other RTOs do not require the XML procedure, doubting the burden that alternate means of dispatch would place on MISO as claimed in MISO's initial filing. PJM, for example, allows demand response participants to receive dispatch notifications through electronic mail or telephone.

Alcoa added that the XML requirement facilitates "traditional" demand response through host utility service providers who already have such interfaces and communications listeners, but does not support non-traditional or new resources that are able and willing to respond.

CAISO Files at FERC for Standard Capacity Product

The California ISO submitted tariff language at FERC to implement a standard capacity product, which is meant to facilitate the development of a marketplace to trade capacity to meet Resource Adequacy (RA) requirements.

The current lack of a standard product definition for capacity hinders trading among LSEs and other markets participants.

At its base, the standard capacity product will compare the monthly operating status of non-exempt RA Resources to a monthly Availability Standard (12 specific monthly targets during the course of a Compliance Year). CAISO's proposal would provide financial incentives for each RA Resource to meet or exceed the monthly Availability Standard.

On a monthly basis, the CAISO would assess Non-Availability Charges to resources whose availability falls short of the Availability Standard and applicable deadband, and will provide Availability Incentive Payments to resources whose availability exceeds the Availability Standard and applicable deadband.

Availability Incentive Payments would only be paid from the revenues the CAISO receives from imposition of Non-Availability Charges on the resources that do not meet the Availability Standard for that trade month, to ensure revenue neutrality.

Availability Standards would not initially apply to resources whose RA Qualifying Capacity is determined by historical output from the California PUC or a local regulatory authority that does not adjust the historical output data, to correct for the potential double counting of outages. Currently, such resources include wind and solar resources, and Qualifying Facilities. CAISO would not initially apply the Availability Standards to demand response resources as well.

CAISO's standard capacity product proposal would permit an RA provider to substitute non-RA capacity for RA capacity experiencing a forced outage in order to avoid the outage being counted against the RA Resource's availability

Along with the capacity product proposal, CAISO sought an amendment relating to the RA must-offer obligation so that an Ancillary Services must-offer obligation is imposed on RA Resources certified to provide Ancillary Services, in addition to the current Energy must-offer obligation. The Ancillary Services must-offer requirement would enable the CAISO to optimize use of the Energy and Ancillary Services capabilities of RA Capacity in its markets, CAISO said.

The CAISO proposed that the standard product and must-offer amendment be effective January 1, 2010.

Briefly:

DaCott Energy Seeks Conn. Aggregator License, Receives Texas Certificate

DaCott Energy Management submitted an application for a Connecticut electric aggregator license, to serve commercial, industrial and municipal customers. DaCott said it was seeking aggregation licenses in New York, Massachusetts, New Jersey and Pennsylvania. It also received its Texas aggregation certificate yesterday (Matters, 4/14/09).

Wellinghoff Floats ERCOT Integration with Eastern Interconnect

Although FERC Chairman Jon Wellinghoff claimed he had no interest in expanding FERC's reach to include ERCOT, Wellinghoff said yesterday that the non-jurisdictional Texas ISO should "consider" interconnection with the Midwest to allow for greater access to wind resources within ERCOT, during an American Wind Energy Association press conference. Given the state of economic transmission cost allocation debates in most FERC jurisdictional RTOs, as well as the backlogged interconnection queues, it's not clear how wind could be better accessed under FERC control.

Direct Pays Ontario Fine

The Ontario Energy Board said Direct Energy Marketing Limited has agreed to pay a $15,000 (Canadian) penalty in order to resolve one alleged instance of making false and misleading statements to a consumer (Matters, 4/24/09).

Another Texas Disconnect Bill Advances

HB 1904 was reported favorably by the Texas House State Affairs committee as substituted during a recent mark-up. The substitute language essentially provides for the same disconnection protections for customers agreeing to enter deferred payment plans as contained in HB 3245 (Matters, 5/5/09). However, HB 1904 does not expand the definition of a weather emergency for purposes of disconnection protections as HB 3245 would.

Constellation ... *from 1*

Constellation also reported that it has divested its Portland-based west trading operations and Alberta-based power and gas customer supply business, as it had previously said it was exiting the Canadian customer supply business. It is currently in the process of exiting its Ontario operations.

Gross margin for Constellation's merchant generation operation was $535 million for the quarter, up from $489 million a year ago, on higher capacity revenue and fewer forced outages.

Overall, Constellation's merchant businesses posted lower net income of $66 million on a consolidated basis, versus $103 million a year ago, mainly from the reduced scope of its commodities operations, particularly discontinued operations such as global commodities and the Houston-based gas trading business.

Constellation said its effort to reduce risk have produced net available liquidity at the end of April of approximately $4 billion, significantly exceeding the current estimated downgrade collateral requirement of $1.5 billion.

Pa. LDCs ... *from 1*

The draft rules also hold that LDCs shall provide full access to pipeline and storage capacity, and that LDCs must support daily nominations and delivery requirements that reflect current pool consumption conditions.

With respect to the standard coordination tariff to be required under the rulemaking, the Commission believes that the most efficient way to develop the tariff as well as best business practices is through the use of a stakeholder process. The Commission intends to complete the stakeholder process no later than August 1, 2009.

The proposed rules would also allow the PUC to direct an LDC to install and upgrade a billing system, electronic bulletin board, software, and other communication or data transmission equipment to implement established electronic data communications standards and formats. A separate working group would establish such electronic data communication standards and formats.