Energy Choice Matters
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IDT Energy Reports Higher Gross Margin, Operating Income from Lower Wholesale Prices

IDT Energy reported higher income from operations for the third quarter ending April 30, 2009 of $12.8 million, up from $900,000 a year ago, on favorable market conditions as wholesale energy prices fell faster than retail rates.

Third quarter gross margin was 29.7%, due to unusually favorable market conditions. As IDT Energy purchases its supply on the spot market, declines in wholesale pricing that outpace retail price declines expands its margin. The near 30% gross margin is triple the 9.7% gross margin recorded a year ago.

But the high levels of gross margin seen during the recent quarter are not sustainable, James Courter, CEO of parent IDT Corp., said, echoing comments made after similarly strong results in the second quarter of 2009. Courter expects 10-15% gross margins going forward, as he expects wholesale energy prices to rise, which will shrink margins as retail prices lag any wholesale price increase.

IDT Energy grew its customer base 20.9% year-over-year, with the total number of meters as of April 30, 2009, standing at 414,000, comprised of 178,000 gas and 236,000 electric meters. The total is also slightly higher than the 408,000 meter total as of January 31, 2009.

However, the pace of sequential meter growth slowed to 6.1% during Q3 2009 compared to 16.2% in Q2 2009, as the level of sales and marketing efforts decreased and IDT Energy attempted to sharpen its acquisition focus to concentrate on acquiring meters with higher consumption per

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Maine ISA Would Not Produce Significant Energy, Capacity Savings, Examiners Find

Requiring Central Maine Power and Bangor Hydro-Electric to exit ISO New England and join a Maine Independent System Administrator (MISA) is "not likely" to produce significant savings in energy costs and capacity costs, which represent the largest portion of Maine customers' bills, two Maine hearing examiners concluded in a report regarding the PUC's investigation into continued participation in ISO-NE.

While the MISA option, detailed in an earlier Brattle Group study (Matters, 5/14/09), represents a "credible and feasible" alternative to ISO-NE, the MISA model is, "unlikely to produce cost savings, could result in increased costs, will take considerable effort on behalf of Maine stakeholders to implement, and poses transactional risks," the examiners said.

In particular, the examiners agreed that the seam between the MISA and ISO-NE markets would discourage the development of generation in Maine. Furthermore, MISA's day-1 market would provide less price transparency, would create an additional barrier to wind development, would likely increase the risk premium in prices, and would represent a step backwards in terms of market development, the examiners added.

"We agree with the Brattle Group's assessment that without the day-2 features, the MISA market would be less efficient and less competitive. In addition, the effectiveness and attractiveness of

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Mich. ALJ Would Keep Disparity in Choice, Bundled Stranded Cost Rates at Consumers

An ALJ has recommended that the Michigan PSC maintain the current $0.0012/kWh differential in the amount of stranded costs paid by retail access customers, and those paid by bundled service customers, in a proposed decision on Consumers Energy's application to increase the stranded cost surcharge to recover costs within five years (U-15744, Matters, 4/3/09).

Currently, only retail access customers pay for stranded costs, at a rate of $0.0012/kWh. Bundled service customers do not pay for any stranded costs.

Last year's Act 286 holds that stranded costs are to be recovered within five years, but the outstanding balance has actually increased since choice began because of smaller than anticipated choice volumes, leading to the interest charges outpacing the payment of the principal.

Consumers applied to implement a bundled service stranded cost surcharge of $0.000803/kWh, and a retail access surcharge of $0.002003/kWh, thereby maintaining the current $0.0012/kWh differential. Retail suppliers have argued that the rates should be equal among bundled and migrated customers, as no one customer is responsible for any more or less stranded costs than the next.

The ALJ succinctly found that Consumers' arguments were most persuasive, though noting that the case is ultimately a policy question for the Commission, as the facts are not in dispute.

The proposed decision would exclude Residential, Wholesale, Rate E-1, and Streetlighting bundled service customers from the surcharge, as Staff suggested, since such classes, "have not had the choice of an alternate electric supplier."

ERCOT Shares 867_03 Transactions with Wrong REP

A set of 867_03 Monthly Usage transactions processed under Protocol Section 19.3.1(42) were incorrectly provided to the wrong Competitive Retailer last month, ERCOT reported to the PUCT in a notice of Protocols violation.

On May 19, 2009, ERCOT's retail transaction processing service experienced an unexpected shutdown, causing the process to be restarted. As a result of the restart, temporary files were left in a temporary folder which would have been otherwise removed.

At the restart of the process, these temporary files were appended to the next transaction, and the result was that 867_03 Monthly Usage transactions processed under Protocol Section 19.3.1(42) were incorrectly provided to the wrong Competitive Retailer.

On May 20, 2009, ERCOT received notice from the Competitive Retailer that it had received a different Competitive Retailer's Monthly Usage transactions, information which is considered Protected Information under Protocol Section 1.3.1.1(20). ERCOT contacted all parties affected; and, on May 27, 2009, it was confirmed by the Competitive Retailer that the Monthly Usage transactions were permanently deleted.

As a result of the retail transaction processing service error, ERCOT said it has undertaken a number of prevention initiatives, including opening corrective action System Investigation Requests (SIRs), implementing additional monitors for immediate identification, and further developing the standard operating procedures.

WPTF Says CAISO Use of Exceptional Dispatch Exceeding FERC Direction

A California ISO report on exceptional dispatch, or out-of-market practices, does not provide transparency required to understand and police ISO practices, the Western Power Trading Forum and J.P. Morgan Ventures Energy Corporation said in comments at FERC, requesting that FERC direct CAISO to supplement its report (ER06-615).

Furthermore, WPTF said that it appears that the CAISO is utilizing exceptional dispatch prior to running the day-ahead market, exceeding the Commission's directive that exceptional dispatch is to be a mechanism to allow the CAISO to go out of market, "when dispatch decisions need to be made quickly." WPTF asked FERC to require CAISO to explain its actions, and affirm that the CAISO should not issue exceptional dispatch instructions prior to running the day-ahead market.

"Committing out-of-market resources prior to the day-ahead market precludes the opportunity to resolve operational requirements through market mechanisms," WPTF said.

WPTF added that CAISO's exceptional dispatch report lacked specificity, as it does not contain the megawatt volumes associated with individual exceptional dispatches, or the causes of individual exceptional dispatches.

Nor does CAISO provide the duration of each exceptional dispatch, which WPTF called "crucial," given the implications for market efficiency, and the potentially price distorting impact of exceptional dispatch. WPTF also said CAISO's report does not include all forms of exceptional dispatch, and thus may underestimate its use in the market.

SCE Wants PUC to Outline Criteria for Future Adoption of Local RA True-Up

Although a proposed California PUC decision on local capacity procurement obligations would defer the question of a monthly true-up in obligations to account for migrated load until 2011 (Matters, 5/18/09), that was not enough to satisfy Southern California Edison, which said that the Commission's decision should enumerate the conditions which must be addressed before implementing any monthly true-up (R. 08-01-025).

"SCE continues to assert that a monthly true-up for local RA [Resource Adequacy] is unnecessary, and, if implemented incorrectly, could have unintended detrimental consequences."

If the Commission intends to proceed with the implementation of a local Resource Adequacy monthly true-up, it first needs to reconcile several key issues associated with it, SCE said, and such issues should be memorialized in the PUC's decision adopting 2010 local capacity requirements.

First, the Commission must consider local RA market power associated with the shifting of local RA procurement obligations during the compliance year, SCE said, given the limited amount of capacity in certain local areas.

Second, procurement of Resource Adequacy capacity takes time, SCE noted, and a monthly true-up will give gaining LSEs very little time (one to two months) to acquire additional local capacity. Absent a liquid market, the immediate need for capacity could result in additional market power issues, SCE contended.

A monthly true-up would also be inappropriate under the current "best estimate" approach to capacity forecasts, SCE said, since the true-up presumes that the original annual forecast was accurate and correctly accounted for all customers in the year-ahead time frame. The current "best estimate" approach does not necessarily ensure that all customers are accounted for on a year-ahead basis, SCE said, and monthly true-ups should only be implemented if the Commission executes a change (as intended) to the "current customer" forecasting approach in the future.

The Commission should also establish wavier provisions for additional obligations due to monthly true-ups, especially for providers of last resort, SCE argued, as such LSEs do not have the ability to deny service to load based on an inability to obtain additional local Resource Adequacy capacity.

The Independent Energy Producers Association focused their comments on the Ancillary Services Must Offer Obligation in the California ISO's proposed Standard Capacity Product, which was only briefly addressed in the proposed decision, though the draft did offer general support for the Must Offer Obligation.

IEP cautioned that the Ancillary Services Must Offer Obligation raises the possibility that suppliers will incur uncompensated costs as they take the steps necessary to comply with the must-offer requirement. If the must-offer requirement results in uncompensated costs of compliance for potential suppliers, "it will create an incentive for suppliers not to qualify for ancillary services, which will incrementally reduce the availability of these services and eventually increase the costs of reliably operating the grid," IEP said.

IEP also noted that suppliers that offer both Resource Adequacy capacity and ancillary services presumably offer greater value than those suppliers that can only offer Resource

Adequacy capacity. That greater value, however, is not reflected in any adjustment to the Resource Adequacy waiver trigger price of $40 per kW-year, IEP said.

"A failure to adjust the waiver trigger in recognition of the greater value offered by suppliers of both RA capacity and ancillary services in effect lowers the waiver trigger for these suppliers and again creates a disincentive to qualify to provide ancillary services," IEP argued.

Briefly:

Platinum Advertising Seeks Md. Broker Licenses, Has Already Brokered Customers

Direct marketing firm Platinum Advertising applied for natural gas and electric broker licenses at the Maryland PSC. Platinum Advertising said it has been brokering in the Baltimore Gas and Electric, Delmarva and Allegheny territories since January 2009, and was unaware a brokering license was required until being informed by a supplier. Platinum reported electric revenues of $4,000 and gas revenues of $2,750 from Maryland operations to date. It currently serves four Maryland customers with six accounts. The firm is seeking broker licenses to serve non-residential electric customers at BGE, Delmarva and Allegheny, and non-residential gas customers at BGE only. Platinum said that its clients include Washington Gas Energy Services, MXenergy, and Integrys Energy. Platinum said its MXenergy campaign has produced 2,500 new customer acquisitions per week.

Power Management Co. Applies for Md. Broker Licenses, Has Already Brokered Load

Broker Power Management Co. LLC, which is active in several Northeast markets, applied at the Maryland PSC for broker licenses for electricity and natural gas. For gas, it would broker non-residential customers in all service areas, while for electricity it would broker customers at the four investor-owned utilities as well as the Southern Maryland Electric Cooperative. Power Management said in its application while it has not actively solicited Maryland customers, it has brokered Maryland load, "through multi location clients based outside of Maryland with operations/facilities within the state."

National Power Source Seeks Ohio Broker License

National Power Source applied for an electric broker license in Ohio, to serve commercial, industrial and mercantile customers in all service territories. National Power Source says it has brokered electricity or gas in New York, Illinois, California, Michigan, Oklahoma, Kansas, Connecticut, Rhode Island, New Jersey, Maryland, and Massachusetts.

Hedging Costs WGL D.C. Customers $6 Million

Washington Gas Light's 2008-09 winter hedging program for District of Columbia customers resulted in $6 million in additional supply costs, or an increase of $33 in the average residential bill over the winter period (GT01-1). The D.C. PSC is accepting comments on WGL's hedging report.

Blue & Silver Energy Consulting to Market Under Blue Star Power Consulting Name

Blue & Silver Energy Consulting, which recently received an aggregator certificate from the PUCT, filed to add the trade name "Blue Star Power Consulting" to its certificate (Matters, 5/11/09).

TXU Improves iThermostat Product

TXU Energy said it has made several enhancements to its iThermostat product, launched last year (Matters, 6/19/08), which allows customers to control their home's heating and cooling system from any Internet-connected device. Improvements include the ability to track and monitor daily heating and cooling costs from any broadband internet connection anywhere in the world; get e-mail alerts with customized energy efficiency tips and daily consumption estimates; and monitor up to four iThermostat devices per household through a secured, personalized website. TXU said customers can save up to $180 or more per year by using pre-programmed Energy Star profiles, for an average household.

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meter.

Churn during the third quarter averaged 4.54% per month, on par with the per-month average churn during the same period a year ago, and slightly better than the 5.01% recorded for the second quarter of 2009.

IDT Energy may soon expand from New York, which is its sole market. CFO Bill Pereira said during an earnings call that IDT management has been "encouraged" by positive actions recently adopted in "several other states," and IDT is presently working on geographic expansion, though no markets were named.

IDT Energy applied for an alternative gas supplier license in Michigan last year, but ultimately withdrew its application. It has also twice filed for a REP certificate in Texas, with each filing dismissed without prejudice for deficiencies in information.

Quarterly revenues were flat at $66 million as lower energy prices offset increases in customer count and consumption per meter.

Selling, General & Administrative expenses rose to $6.9 million in the third quarter, a 29.5% year-over-year increase. SG&A costs were driven primarily by higher variable fees charged by utilities, as well as by KeySpan's introduction of a purchase of receivables program. These increases were partially offset by lower commission costs, reflecting the slower pace of customer acquisitions, and lower compensation costs.

Parent IDT Corp. reported a narrowed net loss of $63 million for the quarter, compared with a loss of $82 million a year ago.

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price-based demand response programs would also be diminished," the examiners noted.

The hearing examiners concluded energy and capacity rates would not fall under the MISA model because prices will gravitate towards the market price set in the larger ISO-NE market, as such prices represent the opportunity cost for sales.

The MISA model will also not likely produce transmission rate savings in the short to medium term. However, if transmission cost reforms are not enacted in ISO-NE, the MISA model may provide lower transmission rates in the long term, the examiners added.

The costs of reserves, and administrative cost savings, were both deemed to have little impact on the ultimate costs or benefits of the MISA model, the examiners said.

It would likely take three years to implement the MISA model, and even with an accelerated process, the MISA model could not be implemented at the end of the current ISO-NE transmission owner agreements, the examiners noted.

The examiners also found that ISO-NE is unlikely to enter into negotiations to implement the Maine Contract Option, under which Maine would leave the ISO but contract with ISO-NE for many of the services it now receives. The ISO has said that other, higher priorities, as well as doubtful FERC approval, have made NEPOOL members uninterested in taking the time to negotiate a contract option.

FERC's decision in the Midwest ISO's market services proposal, in which FERC rejected an expansion of market services to non-transmission owning members due to potential balkanization, also "casts doubt" on the Maine Contract Option, the examiners said.

While the state legislature could provide the Commission with explicit authority to direct CMP and BHE to withdraw from ISO-NE, there are limitations on the ability of the legislature or the Commission to mandate withdrawal due to federal jurisdiction, the examiners noted.

To date, the reforms at ISO New England pursued subsequent to the Commission's Phase I Order, have met with partial success, the hearing examiners concluded.

"However, at times ISO-NE management appears to be more focused on maintaining the status quo than on actively engaging in constructive discussions to advance reforms, especially where reforms are advanced by consumer interests. For example, ISO-NE's reluctance to reform its governance, as well as to achieve a better understanding of the cause of ratepayers' frustration with ISO-NE decision making, means that efforts to make headway with reforms will continue to be time consuming, resource intensive, and at times, fraught with frustration," the examiners said.