Energy Choice Matters

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FirstEnergy Ohio Utilities to File MRO Plan By Year-End; FirstEnergy Solutions Ups Marketing

The FirstEnergy Ohio utilities intend to file an application for a Market Rate Offer with the Public Utilities Commission of Ohio later this year, FirstEnergy Corp. CEO Anthony Alexander said during an earnings call yesterday. The utilities have held two collaborative meetings with signatories to the current electric security plan in preparation for the filing.

Alexander also reported that FirstEnergy's unregulated group is playing an increasingly important role to the parent's bottom line, as Alexander said FirstEnergy's Ohio service areas, "completed the transition to a competitive generation market," in the second quarter.

FirstEnergy Solutions' "aggressive" campaign targeting governmental aggregation groups and individual customers of all classes has resulted in nearly 14 million megawatt hours of annual retail load in Ohio, or about 25% of the market so far. Executives said FirstEnergy Solutions' contracted governmental aggregations now total 50 municipalities (about 600,000 customers), adding that its other marketing efforts are principally focused on large commercial and industrial accounts. FirstEnergy Solutions has undertaken some "smallish" mass market mailings as well.

FirstEnergy Corp. CFO Mark Clark stressed that FirstEnergy Solutions is not racing to simply add volume or customers, reporting that customer acquisition decisions are driven by margins.

Executives said FirstEnergy Solutions is currently concentrating on winning load in its Ohio affiliate service areas, as well as outside of its affiliate territory in Southern Ohio, as now represents the first time that the Ohio market has been open, and Solutions is competing to sign up incumbent customers before other competitors do.

Once Solutions is "comfortable" with its Ohio position, marketing focus will shift to attractive rate classes and large customers in Illinois and western Pennsylvania, both of which can now be sourced

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U.S. Gas & Electric Acquires Energy Services Providers

U.S. Gas & Electric, Inc. has acquired New York ESCO Energy Services Providers, Inc. (ESPI), in a transaction sponsored by MVC Capital, Inc., USG&E's majority shareholder.

USG&E serves small commercial and residential retail customers in New York, New Jersey, Ohio, Indiana, and Michigan. As of March 1, 2009, it had about 30,000 customers in 14 utility territories.

USG&E also recently applied for a retail gas supplier license in Pennsylvania, to serve all customer classes at National Fuel Gas Distribution, Columbia Gas, UGI, and PPL Gas Utilities (now UGI Central Penn), though it does not initially plan to market to residential customers.

Energy Services Providers, which bills itself as the fastest growing supplier in New York State, focuses on mass market sales to both electricity and gas customers. Energy Services Providers is also licensed in other jurisdictions including Texas, though it had not served any Texas load as of its most recent REP annual report. Energy Services Providers reported 2007 revenues of $68.8 million.

USG&E expects the combined company to benefit from greater market recognition and scale, in addition to significant cross-selling opportunities and reduced seasonality due to its complementary natural gas and electricity businesses. Both companies have recorded compounded annual sales

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BGE Posts New Type I, Type II Rates

Baltimore Gas & Electric filed updated Type II generation rates and Type I rates for classes whose load was previously unfilled.

Type I (¢/kWh)

Oct. 1, 2009 - May 31, 2010	
Schedules G, TN	11.250
Schedule GS	
Peak	14.474
Intermediate	12.733
Off-Peak	9.947

Type II (¢/kWh)

Sept. 1 - Nov. 30, 2009	
Schedule G	8.144

	Sept. 1-30	Oct. 1-Nov. 30
Schedule GS		
Peak	11.254	8.761
Intermediate	8.843	7.430
Off-Peak	8.246	5.989
Schedules GL, P		
Peak	11.551	9.010
Intermediate	9.265	7.717
Off-Peak	8.824	6.253

RRI Energy Earnings Fall When Excluding Discontinued Texas Retail Impacts

RRI Energy reported lower adjusted EBITDA of negative $78 million for the second quarter of 2009, compared to EBITDA of $202 million for the second quarter of 2008, on lower unit margins as well as out-of-the-money coal hedges versus in-the-money coal hedges in 2008. The results exclude impacts for the Reliant Energy Texas retail book.

Open EBITDA was negative $10 million for the quarter versus open EBITDA of $136 million a year ago. RRI's loss from continuing operations before income taxes for the second quarter was $185 million, compared to income of $144 million a year ago.

When including discontinued operations, including the Reliant Texas results, RRI net income for the quarter was $804 million, up from $359 million a year ago. Income from discontinued operations was $907 million versus $277 million a year ago.

Discontinued operations also include RRI's remaining Illinois retail book, which is still held for sale. Illinois retail revenues were $13 million for the second quarter, versus $14 million a year ago.

Lower demand and commodity prices reduced RRI open energy unit margin to $10.53/MWh from $35.37/MWh a year ago. Open unit margins by fleet segment were:

$/MWh	Q2 '09	Q2 '08
PJM Coal	$ 8.90	$40.88
MISO Coal	10.13	23.50
PJM/MISO Gas	10.46	46.50
West	82.47	Not Meaningful

Open energy gross margin was down at $56 million versus $223 million a year ago. Economic generation was down at 6.9 TWh versus 7.3 TWh a year ago. When including margin from power purchase agreements, capacity payments, ancillary services revenues and selective commercial hedge strategies, open wholesale gross margin was $171 million, down from $333 million a year ago.

RRI reported that it would likely have three plants, Avon Lake, Newcastle and Niles, move from the Midwest ISO to PJM should FirstEnergy receive approval to transfer its MISO transmission assets to PJM. Such a move would, "probably provide us some benefit given the forward traded capacity market in PJM," RRI CEO Mark Jacobs said. Jacobs noted that slightly more load would join PJM than generation in FirstEnergy's proposed move.

Jacobs also provided more detail on the "modest" hedging undertaken by RRI for 2010 and 2011, designed to achieve free cash flow break even while still leaving open generation in order to benefit from any recovery in market prices. Hedging for 2010 represents about 25% of expected output, and RRI is confident that such a hedging level will produce free cash flow break even, even if market conditions continue to deteriorate. Still, RRI will continue to monitor conditions and may adjust hedging levels if conditions warrant.

WGES Says AOBA Opposition to BGE Customer Lists Driven by Competitive Position

The Apartment and Office Building Association of Metropolitan Washington's "real purpose" in opposing Baltimore Gas & Electric's proposal to share customer lists with competitive suppliers, "is to protect the competitive interest of the AOBA Alliance, a licensed aggregator of AOBA member loads," Washington Gas Energy Services charged in countering AOBA's opposition to the customer list proposal.

As only reported by *Matters*, AOBA called for the PSC to reject BGE's petition, arguing that the state's annotated code prohibits the sharing of such customer information (Matters, 7/17/09).

WGES called AOBA's arguments "strained," contending that the alliance ignored Commission precedent and misapplied cited statutes.

"The AOBA Alliance is really in competition with licensed suppliers for the business of its own members," WGES said. "Viewed from this perspective, the AOBA arguments do not advance the individual interests of its members, but in effect would limit the number of offers their members might receive from suppliers," WGES said.

In particular, WGES noted that the Commission has previously approved the use of customer lists with an opt-out feature in three separate orders, despite AOBA's protest that such action is inconsistent with Section 7-505(b)(6) of the Public Utility Companies Code. WGES noted that the cited code covers, "billing, payment and credit information," which is not the type of information that would be included in the BGE customer lists (name, account number, rate class, usage, etc.). WGES further argued that BGE has removed one of the most controversial aspects of the customer list proposal as originally contained in RM 17 -- the inclusion of the customer's phone number.

While AOBA claims that the opt-out process would be impractical, WGES said AOBA offers nothing more than assertions.

Briefly:

DPUC Approves Acclaim Energy Certificate

The Connecticut DPUC granted Acclaim Energy, Ltd. (f/k/a Legacy CMS Group) an electric aggregator certificate to serve commercial, industrial, municipal and governmental customers.

Business Energy Partners Receives Texas Aggregation License

Newly formed broker Business Energy Partners received an electric aggregator certificate from the PUCT to serve non-residential customers. CEO Dann Day has been CFO at broker ElectYourRate.com. Business Energy Partners said it is also active in Illinois, New York, Massachusetts, Pennsylvania, Ohio, and Michigan (Matters, 7/14/09).

MXenergy Extends Exchange Offer, Receives Amendments to Current Credit, Hedging Agreements

MXenergy Holdings again extended the expiration date for the exchange offer and consent solicitation of its outstanding Floating Rate Senior Notes due 2011, until 12:00 a.m. midnight, New York City time, on August 8, 2009. The early consent deadline was extended until August 7. The extension was made to allow for ongoing negotiations with the contemplated provider of a proposed new credit, hedge and supply facilities. MXenergy also entered into amendments to its current credit and hedge agreements with Société Générale to reflect the extended exchange deadlines, and to push back the date for a required liquidity event under the credit agreement to August 31, 2009. As only reported in *Matters*, the exchange offer is integral to a restructuring plan at MXenergy (Matters, 7/2/09).

Pepco Files Updated WFRSA

Pepco filed an updated Wholesale Full Requirements Service Agreement and Request for Proposals for the next District of Columbia SOS solicitation in FC 1017, with the RFP website to become active with due diligence information on October 7, 2009. First tranche pricing is due December 7, and second tranche pricing is due January 4, 2010. Assuming a third tranche is not conducted, retail prices for the period starting June 1, 2010 would be posted on January 29, 2010.

Pa. ALJ Recommends Approval UGI Penn Natural Gas Settlement

A Pennsylvania ALJ recommended approval of nearly all provisions (and all retail market provisions) of a settlement among UGI Penn Natural Gas, the Retail Energy Supply Association, PUC Staff and consumer advocates in PNG's rate case (Only in Matters, 7/7/09). Among other things, the stipulation establishes a Merchant Function Charge, and includes various improvements to PNG's transportation and balancing tariffs for retail suppliers. For example, the stipulation modifies PNG's supply transfer (imbalance trading) charge from 25¢/Mcf to $125 per transaction.

MISO Files to Raise CONE to $90,000/MW-month

The Midwest ISO and the Independent Market Monitor jointly proposed at FERC that the Cost of New Entry value for the second Planning Year (June 1, 2010 through May 31, 2011) of the Module E construct should be set at $90,000 per MW-month (up from the $80,000/MW-month value currently used). Unlike some other RTOs where the CONE value is charged to parties to represent the actual cost of capacity, CONE in Module E does not set prices and only establishes the level of deficiency penalties that will be charged.

Peevey Orders Hearings on SDG&E Solar Proposal

Testimony and hearings have been ordered concerning San Diego Gas & Electric's non-unanimous stipulation regarding its proposed Solar Energy Project. In an Assigned Commissioner's Ruling, PUC President Michael Peevey ordered additional testimony followed by evidentiary hearings, focusing on issues including levelized costs of the utility-owned portion of SDG&E's proposal, and criteria to evaluate PPAs versus utility-owned solar projects. The scope of the case was also expanded to include a review of whether the SDG&E costs are reasonable, specifically in comparison to the solar PV program approved for Southern California Edison in D.09-06-049. The contested settlement agreement, signed by SDG&E, the Western Power Trading Forum, Californians For Renewable Energy, and Utility Consumers Action Network, would open SDG&E's solar energy program to independent developers, and would cap utility-owned generation at 26 MW (direct current), or $125 million, whichever comes first (Matters, 3/24/09).

CenterPoint Reaches AMS Milestone

CenterPoint Energy announced a milestone in its advanced meter deployment when, on Aug. 1, it completed the installation of 45,000 smart meters and started delivering enhanced smart meter functionality to REPs, including 15 minute interval energy usage data.

Mich. Planning Consortium Members Favor Dissolution

Michigan Planning Consortium participants recommend that the Planning Consortium in its current format should be "concluded," due to significant overlaps with existing regional transmission planning processes. The Planning Consortium was created in July 2008 by the Michigan PSC to review various infrastructure plans and share information. Participants recommended that discussions of certain "hot topics" would continue on an ad hoc basis, facilitated by Michigan PSC Staff. A report from the Consortium filed in docket U-15590 provided a review of Consortium activities, but no policy recommendations outside of disbanding the Consortium as it is currently formed. Recommendations from Constellation NewEnergy made in the Consortium process for competitive procurement and prohibitions against utility policies that would hinder retail choice were mentioned in passing.

NextEra Suggests Longer Review for Intra-Year CRE Changes

NextEra Energy Resources recommended that Protocol Revision Request (PRR) 816 be modified so that for proposed intra-year changes to Closely Related Elements (CREs), stakeholders be given 21 days to review any changes, rather than seven days. NextEra noted in comments on the PRR that, "CRE selections rarely represent reliability issues, rather they are market issues and as such rarely require decisions in less than a week." NextEra said its proposed language does not preclude ERCOT from requesting, nor the Technical Advisory Committee from granting, review in less than 21 days.

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by Solutions' own generation (Solutions had been sourcing western Pennsylvania load from its own generation but sourcing from the market for its Illinois sales). FirstEnergy Solutions is currently active in both areas, but not with the dedicated marketing contemplated once its Ohio campaign is concluded.

Net income for FirstEnergy's Competitive Energy Services segment was $276 million in the second quarter of 2009, up from $66 million in the same period in 2008. The $210 million increase in net income principally reflects a $252 million gain from the sale of FirstEnergy's 9% stake in Ohio Valley Electric Corporation ($158 million after tax) and an increase in gross sales margins.

Non-affiliated retail generation sales at the competitive unit were down for the quarter at $83 million from $154 million a year ago. Lower revenues from non-affiliate retail sales were due to the expiration of certain government aggregation programs in Ohio at the end of 2008 that were supplied by FirstEnergy Solutions, partially offset by the acquisition of new retail customer contracts in the Midwest ISO and PJM markets in the second quarter of 2009. Non-affiliate retail volumes fell nearly 60% (1.1 million MWh vs. 2.7 million MWh a year ago) from lower Ohio and Pennsylvania retail sales, partially offset by higher retail volumes outside of affiliated franchise service areas (747,000 MWh versus 583,000 MWh in the prior-year quarter). The reduced volumes produced a $91 million decrease in revenue, partially mitigated by a $20 million increase in pricing.

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growth of greater than 100% since 2003, MVC said.

After the acquisition, Energy Services Providers will become a wholly-owned subsidiary of USG&E under the leadership of Douglas Marcille, President and Chief Executive Officer of USG&E, who will operate as President and Chief Executive Officer of the combined company.

"With this add-on acquisition, USG&E will now have two dedicated growth engines focused on selling natural gas and electricity, looking to expand in new markets where customer receivables are purchased on a guaranteed non-recourse basis by the incumbent natural gas and/or electric utility," said Puneet Sanan, Chairman of USG&E and Managing Director of The Tokarz Group Advisers, LLC, investment adviser to MVC.

"The combination of USG&E and ESPI will create a stronger organization with more financial flexibility and capacity that will be better positioned to serve customers in both natural gas and electricity deregulated markets throughout the country," Sanan said.

Dr. Franklin C. Lewis, the majority owner and former CEO of Energy Services Providers, will continue to have an ownership interest in the combined retailer.

The transaction required no new investment capital from MVC, but MVC will provide a $10 million limited guaranty and a short-term $4 million letter of credit as part of the transaction. For sponsoring and providing the credit support, MVC will earn one-time fee income of approximately $2.2 million. In addition, MVC's management fee for the oversight of the combined company will increase from $250,000 to $650,000 annually. MVC continues to be a majority shareholder of USG&E after the transaction.