Energy Choice Matters
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Residential Customer Attrition at TXU Accelerates

TXU Energy continued to lose residential customers in the second quarter, which eventually prompted a price reduction last week, parent Energy Futures Holdings said during an earnings call.

While margins remain in TXU's 5-10% target, the retailer had seen in the second quarter a temporary expansion in margins from lower wholesale pricing, followed by pressure on margins as retail prices across the market fell.

As of June 30, 2009, TXU served 1.911 million residential meters. While up from 1.880 million a year ago, the total is down from 1.930 million as of March 31, 2009. Although TXU said the second quarter represented the first net attrition in residential customers in seven quarters, the numbers of residential meters reported in its 10K/Q's show the decline began in the first quarter. The rate of residential churn increased from a loss of 2,000 meters from December 31, 2008 to March 31, 2009, to a loss of 19,000 residential meters from March 31, 2009 to June 30, 2009.

Small business customer meters (< 1 MW) continued to grow, ending the quarter at 279,000 versus 275,000 as of March 31, 2009. Large commercial meters fell to 21,000 from 24,000 as of March 31, 2009.

Total retail sales were up 1.3% at 12,543 GWh, driven by year-over-year residential and small commercial customer growth. Year-over-year residential sales were up 2.1% at 7,084 GWh and small commercial sales were up 2.2% at 1,908 GWh. Large non-residential sales were down 0.6% at 3,551 GWh.

Average volume per residential customer was 3,668 kWh for the quarter. Average volume per small business customer was 6,891 kWh.

Total retail operating revenues were flat at $1.59 billion. Increased residential and small

Continued P. 6

Duke Energy Says It Is Prepared to Retain Ohio Load as Migration Grows

As retail competition in Ohio "intensifies," Duke Energy said it is responding to "increased risk" of customer migration at its Ohio franchised electric utility, with competitive retail affiliate Duke Energy Retail Services "positioned" to help preserve Ohio native load, Duke Energy CFO Lynn Good said during an earnings call.

Duke Energy Retail Services is also competing outside of its native territory at the retail level, and Duke competed in the FirstEnergy Ohio utilities' recent load auction, winning 5%. Duke is "aggressively' marketing to large customers within its service area and is monitoring governmental aggregation developments.

Migrated electric customers at Duke increased from 4% at the end of the first quarter to 10% at the end of the second quarter. About 20% of industrial, 6% of commercial, and 5% of residential customers have now migrated to competitive supply, Duke said, providing more recent information than available from PUCO, whose last update reported migration as of March 31.

Duke would not disclose what amount of migration has been captured by Duke Energy Retail Services, nor would it provide expectations for shopping levels and attendant impact on native sales.

Continued P. 6

ConEdison Solutions Net Income Falls

Net income at Consolidated Edison Solutions fell during the second quarter to $23 million from $41 million a year ago, though the year-ago income included some $43 million in net after-tax mark-to-market gains, versus $18 million of such gains in the 2009 quarter.

Operating revenues for Consolidated Edison Solutions were down at $324 million versus $426 million a year ago. Electric retail revenues decreased $62 million (18%) in the quarter, due primarily to lower per unit prices ($79 million), partially offset by higher sales volume ($17 million).

The retailer's gross margins increased "significantly" due to the sale of higher margin contracts and lower costs, parent Consolidated Edison said. Consolidated Edison Solutions volumes for the six-month period ending June 30, 2009 were approximately 5.6 million MWh, up from 5.3 million MWh for the prior-year period.

At Consolidated Edison Energy, the quarterly net loss was $8 million, narrowed from $12 million a year ago. Operating revenues were $129 million for the 2009 quarter. Electric wholesale revenues decreased $87 million in the three months ended June 30, 2009 as compared with the 2008 period, due primarily to lower sales volumes ($36 million) and lower unit prices ($51 million).

TNMP Files AMS Deployment Plan Contingent on Federal Funding

Texas-New Mexico Power filed at the PUCT a notice of a plan to deploy advanced meters throughout its service territory by 2012 contingent on the receipt of federal stimulus funds. TNMP is the only major jurisdictional ERCOT utility which had not yet filed a smart metering plan (Oncor and CenterPoint have approved plans while plans at the two AEP companies are pending review).

TNMP's application at the U.S. Department of Energy seeks a grant covering fifty percent of the approximately $100 million in advanced meter project costs.

At the PUCT, TNMP did not request approval of deployment or any associated surcharge in its filing. Such a request would be made after any federal funds are awarded to TNMP.

TNMP would deploy 230,000 SmartSynch AMI Intelligence smart meters and associated solutions. Installations would number 82,000 by the end of 2010, another 75,000 in 2011, and another 73,000 in 2012.

While most ERCOT TDUs have chosen to develop private communications networks for advanced metering communication, TNMP said its geographically diverse and dispersed territory would make such an approach cost prohibitive. Instead, TNMP proposed basing its core meter communications on the existing cellular communications network provided by AT&T. Current tests have indicated 96% coverage for TNMP's service territory, and subsequent discussions have resulted in a commitment by cellular providers to guarantee functional communications for 100% of the customers receiving smart meters. In areas where AT&T is lacking coverage, TNMP's meter technology allows for use of alternative cellular carriers that may have better coverage.

TNMP is currently engaged in a 10,000 smart meter pilot, installing approximately 500 meters a week.

PUCT Staff, ERCOT, REPs, Generators Enter NUS on Nodal Fee

PUCT Staff, ERCOT, and several REPs and generators have entered into a non-unanimous stipulation that would set ERCOT's revised nodal surcharge at $0.375/MWh, effective January 1, 2010, with the surcharge remaining at $0.169/MWh for the rest of 2009. The revised surcharge would allow ERCOT to recover $643.8 million, the estimated total cost of the nodal program.

Signatories include Staff, ERCOT, the Alliance for Retail Markets, Texas Competitive Power Advocates, Austin Energy, the PSEG Companies, and South Texas Electric Cooperative. According to settling parties, the Office of Public Utility Counsel, Texas Industrial Energy Consumers, Reliant Energy Retail Services, Texas Energy Association for

Marketers, American Electric Power Service Corp., Brownsville Public Utilities Board, BP Energy, City of Garland, CPS Energy, Denton Municipal Electric, Duke Energy, and the East Texas Cooperatives do not oppose the stipulation agreement. The Steering Committee of Cities Served by Oncor opposes the stipulation agreement but is not requesting a hearing.

The non-unanimous stipulation would maintain the current practice of assigning the nodal surcharges to QSEs representing generation resources.

However, the parties noted that the excess energy that flows back onto the grid from distributed renewable generation installed on a retail customer's side of the meter is currently accounted for in the generation extract for the responsible QSE and, therefore, is assessed the nodal surcharge. Settling parties request that the PUCT review this limited issue.

Specifically, the settling parties have agreed to request that the Commission include within the nodal go-live accounting proceeding to be filed within 12 months of the nodal go-live date, consideration of the limited issue of an exemption from the nodal surcharge for distributed renewable generation (as defined by the current version of PURA §39.916 as of the date of the stipulation); and further that ERCOT will file testimony detailing the estimated cost and time required by ERCOT to make the system changes necessary to implement a distributed renewable generation exemption.

Settling parties do not waive their right to take positions in subsequent nodal or cost allocation cases by signing the stipulation.

MISO Files to Fix Loophole Allowing Customers to Avoid Certain Transmission Charges

The Midwest ISO filed a tariff change at FERC designed to close a "loophole" which has allowed customers to receive an improper transmission rate discount. Specifically, MISO sought to amend its rules applicable to changes in Receipt and Delivery Points on a firm basis (firm redirects) in order to remedy an identified tariff flaw which can result in zero transmission charges being imposed.

MISO said that unscheduled reservations to PJM taking advantage of the loophole resulted in transmission customers avoiding transmission service payments totaling $39.8 million for the period from January 1, 2008 to June 30, 2009.

Under Section 22.3 of MISO's tariff, when a transmission customer taking Firm Point-to-Point Transmission Service requests a modification of its Receipt and Delivery Points on a firm basis, the Midwest ISO must treat such a request as a new request for service. This means that the redirecting customer pays the transmission rate based on the new Receipt and Delivery Points for the duration of the redirect.

In 2003, FERC directed MISO to eliminate certain regional through-and-out rates (RTOR) with respect to transactions between the Midwest ISO and PJM. The Midwest ISO's zonal pricing and the Commission's directive meant that that no transmission charge would be imposed on Point-to-Point Transmission Service transactions originating in the Midwest ISO and sinking in PJM. MISO's redirect rules were not changed to account for the elimination of the PJM regional through-and-out rates.

As a result, MISO began observing certain "unusual activities" with respect to firm redirects to PJM sinks. Specifically, MISO has experienced an unusual increase in requests for firm redirects to PJM sinks. Most of these requests are untagged, short-term redirects from other "out" interfaces. Because the regional through-and-out rate to PJM is zero, customers may use the firm redirect procedure to redirect their service to the "free" PJM path during the time periods when they do not need or want their firm service on the original path, thereby substantially reducing their transmission costs. As a result, the parent reservation is effectively "annulled" (and the overall parent firm charge is reduced) while no transaction is scheduled under the redirected reservation to PJM.

MISO said that the practice has become "pervasive." From January 1, 2008, to June 30, 2009, firm redirects to PJM involved 16.45 million megawatt-hours of energy, with 89.9% of the redirects (or 14.69 million MWh) being unscheduled. In comparison, unscheduled redirects accounted for only 24% of all firm

redirects to non-PJM, non-zero rate sinks for the same time period. The study also revealed that all of the unscheduled firm redirects to PJM were short-term (i.e., daily, weekly or monthly), with 96% of them being daily redirects.

The firm redirect practices described, "have resulted in significant adverse effects on the Midwest ISO's operations and Tariff administration," MISO said. Redirecting service to zero rate sinks for the sole purpose of avoiding the cost of paying for confirmed service may cause market inefficiencies, including transmission capacity hoarding. These inefficiencies include a decrease in available long-term firm transmission capacity on constrained paths and reductions in available daily firm capability on the PJM path, MISO added.

MISO proposed adding language to its tariff holding that, if the modified Receipt or Delivery Point in a firm redirect results in a transmission path for which the applicable transmission rate is zero, the transmission customer shall pay the transmission and ancillary services rates in effect between the original Receipt and Delivery Points for the duration its service is redirected.

Palmco Power Seeks RPS Waiver in Conn. Application

Palmco Power applied for an RPS waiver as part of a revised Connecticut electric supplier application.

As exclusively reported by *Matters*, Palmco Power is a start-up led by Robert Palmese, who has led day-to-day operations at New York electric and gas ESCO (and fuel oil supplier) Columbia Utilities since 2002, including procurement and scheduling (Matters, 2/20/09). Palmco said family-owned Columbia Utilities would serve as a guarantor of Palmco if required to meet Connecticut licensing standards.

In June, the DPUC dismissed Palmco's application as deficient (Only in Matters, 6/23/09).

In its revised application, Palmco asked for a 1.5 year waiver (from the date of first serving load) of RPS requirements. Palmco said it could not provide its expected renewable energy sources for the first 12 months of operations, as required by the license application, due to its start-up nature and unfamiliarity with the Connecticut market.

Palmco also reported that its standard offering will be a monthly variable rate based on spot prices. Customized Energy Solutions will provide contract purchasing and contract scheduling of electricity for Palmco.

PPL Supply Earnings Fall on Lower Margins From Load Following Contracts

The net loss attributable to PPL Corp. from its competitive generation and marketing Supply unit was $86 million for the second quarter of 2009, reversing net income of $97 million a year ago.

A $121 million decrease in earnings was attributed to various special items, including impairments related to previously announced non-core asset sales and economic hedging activity. Ongoing Supply earnings were $34 million, down from $96 million a year ago.

Supply's domestic gross energy margin was lower at $389 million versus $447 million a year ago. Margin by sector was:

(in millions)	Q2 '09	Q2 '08
Asset-related margins:		
Eastern U.S.	$ 310	$ 306
Western U.S.	77	68
Marketing and trading margins:		
Eastern U.S.	2	73

Eastern U.S. asset-related margins were $4 million higher primarily due to gains resulting from the settlement of economic positions related to portfolio rebalancing and optimization strategies, higher capacity revenue and a 2.2% increase in POLR sales prices. Higher Western asset margins resulted from increased generation from hydroelectric units.

Eastern U.S. marketing and trading margins were $71 million lower versus the 2008 quarter mainly from lower Financial Transmission Right (FTR) results, caused by lower congestion prices as a result of lower electricity prices, and lower margins on full-requirement sales contracts due to mild weather and the economic downturn. Partially offsetting these decreases were increased margins in power, gas, and oil trading positions.

Supply's unregulated retail electric and gas

revenues were $32 million for the quarter, versus $33 million a year ago.

Excluding special items, PPL expects its Supply unit to earn $320 million from ongoing operations for the year, based on higher energy margins as a result of higher expected baseload generation, and margins from marketing and trading activities.

However, for 2010, PPL lowered earnings guidance at the corporate level from a range of $1.35 billion-$1.58 billion to $1.17 billion-$1.32 billion due to lower regional customer demand, increased shopping, lower natural gas and power prices, and reduced congestion and volatility in the PJM energy markets, which have lowered 2010 margin expectations for PPL EnergyPlus' marketing and trading operations. In particular, executives said they expect PPL EnergyPlus to pursue less load following contracts in 2010 given their profitability levels in a time where load is falling and unit deliveries are lower.

PPL has also undertaken an aggressive policy of defensive hedging to decrease its 2010 earnings risk, increasing 2010 baseload generation hedge levels to 98%

"In evaluating market risks, we determined that the downside risk of further demand destruction, a prolonged low gas price environment and continued economic uncertainty was significantly greater than the upside the natural higher prices based on an uncertain economic recovery," PPL Corp. CEO James Miller said. Baseload generation is 80% hedged for 2011 and 53% hedged for 2012.

PPL Corp. COO William Spence reported that POLR volumes are down about 20% currently, with 6% attributed to weather, 7% attributed to the economy, and the remaining 7% attributed to increased shopping. Executives were expecting about a 2-3% decline due to migration, but lower wholesale prices have increased activity even ahead of the end of rate caps.

Allegheny Competitive Earnings Fall on Weak Pricing

Adjusted net income at Allegheny Energy's Generation and Marketing unit fell to $42.2 million in the quarter, from $72.0 million a year ago, on decreased generation volume and lower power prices, partially offset by higher generation rates in Pennsylvania and Maryland.

GAAP net income was $45.0 million versus $149.6 million a year ago.

Higher Pennsylvania generation rates accounted for an adjusted, pre-tax gain of $33 million versus the year-ago quarter, while higher Maryland generation rates produced a $17 million gain year-over-year.

Allegheny Energy Supply won 700,000 MWh in affiliate West Penn Power's June default service auction, which will produce a pre-tax 2011 energy margin increase of $16/MWh.

Addressing the Reliability Pricing Model, Allegheny Energy CEO Paul Evanson called the lower price levels seen in the recent auction for the 2012/13 delivery year unsustainable, arguing that such prices will neither incent new generation nor maintain less efficient units.

Allegheny Energy Supply's coal-fired output is about 90% hedged for 2009, about 80% hedged for 2010, and about 10% hedged for 2011.

Briefly:

TexRep5 Certificate Amendment Reflecting New Owner Horizon Power Approved

The PUCT approved an amendment to the REP certificate of TexRep5, LLC to reflect its new parent, Horizon Power and Light, as exclusively reported by *Matters* (7/9/09). The amended REP certificate also includes the trade names AllStar Energy and Norwell Energy.

NiSource Signs Letter of Intent to Sell Unregulated Marketing Business

In the second quarter of 2009, NiSource signed a letter of intent to sell its unregulated natural gas marketing activities, NiSource reported in a 10-Q. As part of the process, NiSource classified $13.5 million of net income as discontinued operations for the quarter ending June 30, 2009.

Just Energy Applies to Add Commerce Trade Name to Ontario Licences

In addition to seeking an amendment to its retailing licences to reflect its name change to Just Energy, Ontario Energy Savings requested

to add the trade name Commerce Energy to its licences.

Amerex Energy Services Hires Steve Hardy
Amerex Energy Services has hired Steve Hardy as a senior associate. Hardy will be based in Dallas where he will be primarily responsible for business development in the North Texas/Dallas region. Hardy was most recently managing director at Priority Power Management.

Direct Extends Cowboys Partnership
Direct Energy said it has renewed its partnership with the Dallas Cowboys for three years through 2012. The partnership includes electricity supply and various promotional activities.

ICC Holds Ameren POR Consideration
The Illinois Commence Commission held consideration of Ameren's Purchase of Receivables filings at yesterday's open meeting.

Entergy Competitive Earnings Lower
Net income from Entergy's competitive businesses was down for the second quarter at $92 million from $148 million a year ago on lower generation from additional refueling and unplanned outages. Earnings at Entergy Nuclear were down at $78.4 million for the quarter. Aside from higher outages, Entergy Nuclear saw lower income from a scheduled reduction in revenue amortization for the Palisades below-market Power Purchase Agreement. Entergy Nuclear's average realized unit price ticked up to $59.22/MWh from $58.22/MWh a year ago, but its open price fell into the $30/MWh range, prompting Entergy to revise its guidance downward. Entergy Nuclear's sold forward position is 87 percent, 81 percent, and 54 percent of planned generation at average prices per megawatt-hour of $62, $58 and $56, for the second half of 2009, 2010, and 2011, respectively.

TXU ... from 1

commercial revenue, year-over-year, offset a decline in large customer revenues. Residential revenues were $984 million; small commercial revenues were $295 million, and large customer revenues were $310 million.

Retail bad debt was $5 million higher in the quarter, mainly from year-over-year customer growth. TXU also recorded $7 million in higher costs from its recently implemented retail customer information system and costs incurred in connection with the transition to a new multi-partner outsource model.

Regarding new REP certification rules, TXU said that if it had amended its certificate to reflect the new financial requirements in the second quarter, the amount of additional available liquidity required to be maintained by parent Texas Competitive Energy Holdings related to payments to TDUs would have been reduced from $231 million to approximately $109 million.

Net loss at Texas Competitive Energy Holdings, which consolidates TXU and Luminant results, was $59 million for the quarter, versus a loss of $3.2 billion a year ago. The change mostly reflects a roughly $4.4 billion decrease in unrealized hedging losses year-over-year.

In terms of operating results, the competitive business improved $22 million year-over-year, mainly driven by a $71 million (after tax) improvement in contribution margin from lower purchased power costs during plant outages, higher nuclear generation of 572 GWh, higher margin from asset management activities, and a reduction in amortization of intangible assets arising from purchase accounting. These gains were partially offset by increased amortization of interest rate hedge losses, higher depreciation and amortization expense, and other factors.

At Luminant, the economic backdown of coal units increased by about 300 GWh during the quarter, offsetting higher availability of coal units of approximately 250 GWh.

Duke ... from 1

The financial impact of customer switching during the second quarter was not significant, Duke said.

Duke listed the competitive retail arms of FirstEnergy (FirstEnergy Solutions) and FPL Group (Gexa Energy/NextEra Energy Resources) as participating in the market. Of programs into which Duke has visibility, Duke said it was aware of one residential governmental aggregation which will be coming up for a vote in August.

At this point, Duke said that Duke Energy Retail Services is focused solely on Ohio and not other markets.

Duke's Commercial Power unit reported second-quarter 2009 segment EBIT from continuing operations of $79 million, compared to $235 million in the second quarter of 2008. Results were adversely affected by mark-to-market losses on economic hedges in 2009 as compared to gains in 2008, unfavorable wholesale margins and lower volumes for Ohio retail customers.

Adjusted Commercial Power EBIT was $115 million versus $128 million a year ago. Unfavorable wholesale margins had a $19 million negative impact when compared with the same quarter last year. The decline was partially offset by improved retail margins of $8 million, due to higher pricing contained in the electric security plan.

Duke's Midwest gas assets contributed $6 million of adjusted EBIT in the second quarter, due to higher generation volumes and PJM capacity revenues. During the second quarter of 2009, sales volumes for the Midwest gas-fired assets increased by approximately 300% over the same time last year. Duke reiterated its expectation that these assets will be EBIT positive on an adjusted basis in 2009.

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