Energy Choice Matters

August 6, 2009

WGES Earnings Rise on Higher Margins; Customer Count Up 17% in Last Three Months

WGL Holdings reported higher adjusted operating earnings from retail energy marketing activities of $9.6 million for the third fiscal quarter, up from $5.1 million a year ago, on higher margins. GAAP net income from retail marketing was lower at $3.9 million versus $8.1 million a year ago, reflecting unrealized mark-to-market losses on energy-related derivatives versus unrealized gains in the year-ago quarter. Quarterly results were issued yesterday evening ahead of an earnings call this morning.

WGL Holdings said retail natural gas margins were higher from increased per unit margin, while higher electric margins were driven by increased sales volumes.

Partially offsetting higher margins were higher operating expenses related to increased marketing initiatives designed to take advantage of, "unpredictably unique marketing opportunities that arose this quarter." Total promotional, marketing and customer acquisition expense in the quarter on a pre-tax basis was $3.0 million higher versus the year-ago quarter, primarily reflecting accelerated mass-marketing efforts targeted toward residential and small commercial customers. Also contributing to the increased expense were sales costs associated with gains in Washington Gas Energy Services' share of the large commercial electric and gas markets, as weaker competition from competing suppliers provided greater opportunities.

Total WGES customer count increased nearly 36,000 since March 31, 2009, with WGES reporting 247,700 accounts as of June 30.

Natural gas customers grew to 148,800 from 141,500 as of March 31, and 138,200 a year ago. Electric customer count jumped to 98,900 from 70,600 as of March 31, and 63,600 a year ago.

WGES gas sales were 102.8 million therms in the quarter. Electric sales were 1.3 million MWh.

Continued P. 6

Integrys Energy Services Net Income Higher on Increased Electric Margins

Net income at Integrys Energy Services increased in the second quarter to $11.4 million from $9.0 million a year ago, from higher realized retail electric margins as well as non-cash accounting gains.

Margins from realized retail electric operations rose to $13.7 million (after tax) in the second quarter of 2009, from $4.5 million (after tax) a year ago. Higher retail electric margins were seen in Illinois, New England, and New York as Integrys Energy Services said it focused on retail markets with higher margins in 2009. Margins were also higher in the Mid-Atlantic region, as Integrys Energy Services continued to realize volume growth in this newer market.

Realized wholesale electric margins were also higher at $18.9 million (after tax) versus $13.7 million (after tax) a year ago. Integrys Energy Services says the margins reflect prior-year period marketing activities, and that it has scaled back wholesale transactions as part of its divestiture and unwinding of the competitive business.

Realized natural gas margins were down for the quarter at $3.8 million (after tax) compared with $24.8 million (after tax) in the prior-year quarter, mostly from a reduction in wholesale transactions. Integrys Energy Services has reduced the volume of wholesale natural gas transactions entered into

Continued P. 6

United Illuminating Reports July Migration Statistics

Electric Supplier Accounts	July '09 Residential	July '09 Business	July '09 Total	July '09 % of Migrated Customers	Change vs. June '09 Total
Clearview Electric, Inc.	193	58	251	0.5%	112
Consolidated Edison Solutions	3,909	1,089	4,998	9.9%	354
Constellation NewEnergy	316	3,112	3,428	6.8%	14
Direct Energy Business	9	742	751	1.5%	20
Direct Energy Services	10,516	1,522	12,038	23.9%	1,994
Dominion Retail, Inc.	16,050	1,347	17,397	34.6%	-163
Gexa Energy Connecticut	3	159	162	0.3%	8
Glacial Energy of New England	21	336	357	0.7%	0
Hess Corporation	53	482	535	1.1%	472
Integrys Energy Services	3	1,730	1,733	3.4%	2
Liberty Power Delaware		5	5	0.0%	0
MX Energy	1,156	707	1,863	3.7%	-11
Public Power & Utility, Inc.	4,218	1,112	5,330	10.6%	400
Sempra Energy Solutions	33	664	697	1.4%	3
Suez Energy Resources NA	2	199	201	0.4%	9
TransCanada	8	455	463	0.9%	0
Energy Plus	98	8	106	0.2%	104
Total All Suppliers	**36,588**	**13,727**	**50,315**	100.0%	**3,318**

Aggregate Data

Customer Load - Suppliers and UI (MWh)

	Residential - SS		Business - SS		Business - LRS		Total UI Territory	
	MWh	% of Class	MWh	% of Class	MWh	% of Class	MWh	% of Total
Suppliers	27,589	14.3%	127,998	63.2%	119,262	92.5%	274,849	52.4%
UI	165,230	85.7%	74,492	36.8%	9,711	7.5%	249,433	47.6%
Total	192,819		202,490		128,973		524,282	

Customer Count - Suppliers and UI

	Residential - SS		Business - SS		Business - LRS		Total UI Territory	
	Customers	% of Class	Customers	% of Class	Customers	% of Class	Customers	% of Total
Suppliers	36,588	12.7%	13,474	36%	253	88.8%	50,315	15.4%
UI	251,760	87.3%	24,224	64%	32	11.2%	276,016	84.6%
Total	288,348		37,698		285		326,331	

SS = Standard Service
LRS = Last Resort Service

Data as reported by UI

Nstar Files Large Customer Basic Service Rates

Nstar filed for approval of new basic service rates for large customers for the three-month period starting October 1, 2009

Fixed Price Option: Oct. 1 - Dec. 31, 2009

Large Commercial/Industrial (Rates B3, B7, 62, 70): NEMA	7.663¢/kWh
Large Commercial/Industrial (Rates G6, G8, 24, 84): SEMA	7.509¢/kWh

Variable Price Option: Oct. 1 - Dec. 31, 2009

Large Commercial/Industrial (Rates B3, B7, 62, 70): NEMA	
October	6.993¢/kWh
November	7.462¢/kWh
December	8.492¢/kWh
Large Commercial/Industrial (Rates G6, G8, 24, 84): SEMA	
October	6.969¢/kWh
November	7.292¢/kWh
December	8.267¢/kWh

CenterPoint Competitive Gas Unit Results Higher on Mark-to-Market Gains

CenterPoint Energy's Competitive Natural Gas Sales and Services unit reported higher operating income of $6 million for the second quarter of 2009, versus a $5 million operating loss a year ago, on mark-to-market gains of $3 million for the 2009 quarter, versus $10 million in mark-to-market charges a year ago.

Margin was lower by $2 million year-over-year. Competitive commercial and industrial sales have been "solid," CenterPoint Energy, Inc., CEO David McClanahan said, reporting that weaker margins are the result of reduced basis differentials and seasonal spreads impacting the unit's wholesale activities.

Customers as of June 30, 2009 were 10,878, up from 10,862 as of March 31, 2009, and 8,900 a year ago. Quarterly throughput was down 12% at 114 Bcf versus 129 Bcf a year ago.

Revenues at the competitive arm were down at $432 million from $1.2 billion a year ago.

Mass. Utilities Say Suppliers' Referral Proposal Does Not Assuage Concerns

Electric distribution companies continued to assert that requiring utilities to relate specific offers to Massachusetts customers as part of a supplier referral program would threaten service quality metrics and confuse customers, despite a proposal from several suppliers which addresses such concerns (Matters, 7/28/09).

The 2008 Green Communities Act requires the utilities to institute a supplier referral program in which the utilities, "describe then available offers" to customers calling the utilities. However, the four investor-owned distribution companies have jointly proposed a program that would not describe specific offers to customers. Instead, customers would only be provided with a list of suppliers.

As only reported by *Matters*, several suppliers have called the utilities' proposed program inconsistent with the statute, and offered an alternate designed to mitigate several of the utilities' objections, and modeled after the Connecticut referral program.

In particular, a proposal from the Retail Energy Supply Association, Dominion Retail, Consolidated Edison Solutions, and Direct Energy Services (Suppliers) would inform customers of a standardized, six-month product offered by competing retailers through the use of the utilities' interactive voice response systems. By using the utilities' IVRs, the referral program would not impose requirements on utility customer service reps, and would not impact DPU customer service metrics, the Suppliers said.

In reply comments, Nstar and National Grid repeated their service quality performance concerns, but did not address how use of the Suppliers' proposed IVR system would affect their service quality performance. Nstar did argue that outside of the IVR process, the referral program could lead to more calls requiring interaction with utility customer service reps due to customers' confusion or complaints regarding their experience on competitive supply.

RESA called such arguments "wholly speculative," stating that in Connecticut, referral customers typically stay with their referral program supplier, indicating customer satisfaction that would not increase utility call center volume.

RESA also called Nstar's concern that a customer might confuse their referral offer as a legally binding contract with Nstar, "baseless," noting that, especially under the Suppliers' IVR process, the referral customer will not speak to a utility representative; will be clearly informed that the offer is from another stated company; and, if electing to enroll, will be transferred via a prompt to the supplier's call center.

Despite the Suppliers' proposal for a standard, six-month fixed product that would allow the referral offer to be ranked in ascending order of price on an objective basis, National Grid insisted such a price-based ranking is still problematic. Grid said such a proposed "ranking" could lead customers to believe Grid is endorsing one product over another.

Responding to arguments from MXenergy that a Connecticut-style program would benefit larger suppliers at the expense of smaller ones (due to a no-termination fee provision that could be more easily absorbed by large retailers), RESA said that the proposed the six-month offer for Massachusetts, versus a one-year fixed product in Connecticut, mitigates potential risk to suppliers from customer churn, and would allow more small suppliers to participate.

MXenergy has also related instances of bait-and-switch under the Connecticut referral program where the fixed-price was not offered for the full 12 months (Only in Matters, 7/27/09). RESA said it was not aware of customer complaints lodged at the Connecticut DPUC alleging such tactics. While RESA supports a robust compliance programs, speculative concerns about compliance should not derail implementation of an offer-based referral program, RESA said.

Nstar opposed Dominion Retail's recommendation to eliminate the provision requiring mass market customers leaving fixed-price basic service to be rebilled, retroactively, using the monthly variable basic service rate as part of the referral program. Nstar said that the provision is required to prevent gaming, and that any change is outside of the scope of the referral program proceeding.

RESA countered, however, that Nstar cited confusion caused by the bill recalculation as one of the reasons to not list specific supplier offers through the referral program. RESA noted that the bill recalculation applies regardless of whether the customer shops through the referral program or independently, and that any confusion or customer dissatisfaction caused by the rebilling should not be attributed to the referral program, but rather to the rebilling mechanism itself.

AOBA Requests "Account" Definition be Stricken from RM35

The Apartment and Office Building Association petitioned the Maryland PSC to strike the definition of "account" as proposed in the latest version of RM 35 (competitive gas market rules) filed with the state register, arguing that the definition could allow suppliers to obtain customer information without prior customer approval.

The PSC has set a rulemaking session on RM 35 for September 10.

As drafted in the latest proposal, "account" means, "the record of customer information that is designated by a unique utility identifier for premises receiving gas service."

AOBA argued that the unique customer identifier for each customer "account" as defined in the proposed competitive regulations, "would provide access to customer information that is protected from disclosure, absent the prior consent of the customer." AOBA said that the proposed definition of "account" could lead to the disclosure of customer information where the customer has not provided prior consent for such disclosure.

AOBA noted the competitive electric rules under RM 17 do not include a definition for "account." Furthermore, the proposed gas regulations already define "customer information" to include "utility account number" as part of the pre-enrollment information available to suppliers upon customer authorization. Including a definition of account in the RM 35 regulations would create confusion, AOBA added.

The Office of People's Counsel reiterated its opposition to Purchase of Supplier Receivables or pro-rated partial payments as contained in

RM 35. The National Energy Marketers Association encouraged the PSC to adopt the proposed regulations.

Pa. ALJ Recommends Rejection of Staff's Proposed 5% Retainage Limit at Columbia

A Pennsylvania ALJ would reject the PUC Office of Trial Staff's proposal to impose a 5% maximum Lost And Unaccounted For Gas allowance at Columbia Gas, as the higher cap has not been justified given Columbia's historically low retainage rates, in a draft decision in Columbia's Section 1307(f) proceeding.

Staff had recommended the 5% Lost And Unaccounted For Gas cap, stating its intent to seek a uniform cap at all LDCs. Staff had also proposed that the retainage rate for transportation customers (excluding certain Main Line Sales Service customers who have a 0% retainage rate) be increased from 1.29% to 1.66%, reflecting a Lost And Unaccounted For Gas rate of 1.6%, plus 0.06% relating to the LDC's use gas.

However, the ALJ found that Staff's Lost And Unaccounted For Gas cap could allow Columbia to impose increased costs on ratepayers in the future, and is not consistent with least cost fuel procurement policy. Columbia's Lost And Unaccounted For Gas percentage is the second lowest in the state and is well below Staff's proposed cap, the ALJ noted, finding Staff had not supported its proposed cap.

The ALJ recommended that the retainage rate for transportation customers be set at 1.89% (1.83% Lost And Unaccounted For Gas and 0.06% company use gas).

Additionally, the ALJ would direct Columbia to maintain its current calendar-year hedging program for one year, rejecting calls from the Office of Consumer Advocate for an immediate move to price-driven hedging. Columbia would be required to study price-driven hedging and summer hedging, and issue a written report before February 1, 2010.

"The purpose of Columbia's hedging program, or any NGDC's hedging program for that matter, is to ameliorate sharp price increases, not to try to time the market and guess when prices are favorable relative to future purchases. Of course, the costs of reducing risk must be considered as well," the ALJ said.

Briefly:

Horizon Power & Light to Relinquish Delaware License as Part of Settlement

Horizon Power & Light would relinquish its Delaware electric supplier license under a settlement with PSC Staff to resolve complaints regarding a price increase charged to customers in the spring of last year. Horizon's contracts offered a fixed rate through May 31 (with new pricing thereafter) regardless of enrollment date, but some customers claimed the products were sold as 12-month fixed products. PSC Staff has said customers must receive 30 days notice before any rate change. The settlement is subject to PSC approval. Horizon, which would not admit wrongdoing under the stipulation, would also make a payment which the PSC intends to use to provide partial restitution to customers. PSC Staff would not disclose the amount of the settlement at this time, but Staff hopes to place the stipulation on the Aug. 18 agenda.

DPUC Approves CL&P Last Resort Procurement

The Connecticut DPUC approved Connecticut Light and Power's August 4 solicitation for 100% of Last Resort Service supplies for the three-month period beginning October 1. Retail rates must be filed by August 17.

PUCT Approves Aggregation Certificate for Texas Electric Regulation Services

The PUCT granted Texas Electric Regulation Services an aggregation certificate to serve all classes of customers.

FERC Declines to Extend FCA Price Floor At This Time

FERC rejected a request by the New England Power Generators Association to extend the Forward Capacity Auction price floor through the fourth FCA auction if reforms to the Forward Capacity Market are not in place by the time of the fourth auction. FERC denied the request in accepting an informational filing from ISO New

England describing operation of the FCM to date and potential improvements (ER09-1282, First in Matters, 6/10/09). As requested by ISO-NE, FERC deferred any changes to the stakeholder process, and denied a request from NEPGA to impose a filing deadline of February 20, 2010 on ISO-NE for filing FCM reforms. NEPGA has contended that the currently flawed forward capacity market design is producing prices at the floor which are not reflective of the value of the services purchased, arguing that, without reform, the capacity markets could return to clearing at zero, as they did prior to the FCM.

PUCT Opens Entergy, Wind Dockets

The PUCT opened two new dockets as directed at last week's open meeting (Matters, 7/31/09). Project 37338 will review wholesale market issues relating to Entergy Texas, and is mainly intended to house any issues arising from Entergy's newly formed regional state committee and associated study of joining the SPP RTO. Project 37339 will house market and operating issues related to wind generating capacity in ERCOT. In particular, Commissioners said quick start generation, reserve margin needs, and administrative scarcity pricing issues should be reviewed in the docket.

FERC Intends to Revoke MBR Authority of Six Sellers

FERC issued a notice of intent to revoke the market based rate authority of the following entities for failure to file Electric Quarterly Reports for the first quarter of 2009: Energy Algorithms, LLC; Forest Energy Partners, LLC; Norge Power Marketing Corporation; Ohms Energy Company, LLC; Strategic Energy Management Corp.; and The Energy Group of America Inc.

EPSA Provides Additional Rebuttal to Synapse Carbon Allowance Study

EPSA yesterday issued an additional response to a Synapse Energy Economics study, sponsored by the American Public Power Association and others, which said allocation of carbon emission allowances to merchant generators would produce windfall profits (Matters, 7/16/09). Among other things, EPSA said a "fatal flaw" of the Synapse report is that Synapse, "woefully understates the extent to which merchant coal plants are unable to recover carbon compliance costs when natural gas sets market prices." Synapse also deflates expected merchant coal compliance costs by assuming that each coal plant will be able to abate 16% of its emissions for only $10 per ton, EPSA argued. "This counterfactual assumption ignores the fact that the only realistic alternative for coal plants to reduce their carbon emissions in the short run is to buy offsets, which will trade for the same price as allowances in a well-functioning market. By artificially assuming higher revenues and lower costs, the report understates the losses such plants face without reasonable transitional allocations, such as those in the Waxman-Markey bill," EPSA added.

WGES ... from 1

WGL Holdings' design-build energy systems segment reported higher net income of $834,000 for the quarter, up from $301,000 a year ago, reflecting growth in the number and in the size and profitability of design-build projects.

Integrys ... from 1

in response to the current volatility and uncertainty in the global financial markets, and in order to improve its liquidity position.

Margins were also offset by $11.9 million in after-tax restructuring expenses including anticipated employee related costs, a write-off of software, and consulting and legal costs.

Operating and maintenance expenses increased $10.6 million after-tax from the prior-year period, largely related to a $5.4 million after-tax fee paid to a counterparty in order to consolidate certain wholesale financial and physical transactions. This novation agreement is expected to enable Integrys Energy Services to reduce costs in the future through reductions in collateral postings. The remaining increase in operating and maintenance expense related primarily to higher bad debt expense resulting from an increase in customer bankruptcies year-over-year.

Quarterly physical retail electric sales volumes were 3,719.3 GWh. Physical retail natural gas sales volumes were 54.6 Bcf.