Energy Choice Matters

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WGL Files to Implement POR, Submits Discount Rate Outline

Washington Gas Light has revised its compliance plan for COMAR 20.59 and petitioned the Maryland PSC to institute a purchase of receivables program, rather than proration of partial payments as originally proposed. WGL's willingness to file a POR program was first reported by *Matters* last week (Only in Matters, 12/4/09).

WGL's filing was skeletal, mainly outlining a discount rate methodology, with WGL saying it will submit tariff language at a later date. WGL said that the discount rate, whose methodology garnered near-unanimous support from suppliers, would be comprised of five components:

- Bad debt expense: Defined as the percentage of actual bad debt write-offs for the most recent historical 12-month period. The bad debt component would be updated annually.
- Information Technology Implementation Costs: Total incremental IT costs would be collected through the discount rate using a five year amortization period.
- Incremental Collection Costs: Calculated as the estimated increase in annual collection costs to be incurred as a result of the implementation of the POR program. This component would be updated annually.
- Risk Factor: For the first year of POR, the risk factor is estimated to be 0.25% of annual competitive service provider commodity sales. An assessment would be performed annually to evaluate any adjustments, if needed.
- Reconciliation Factor: The reconciliation factor will adjust for any under-collection of costs, except for bad debt expenses, due to under-participation of suppliers in POR.

WGL said that its POR program would be implemented in February 2011. Under the program,

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Calif. Utilities Post Calculations of Electric Load Open to Direct Access Under Cap

Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric reported to the California PUC their calculations of the total amount of non-residential electric load that will be able to partake in direct access (DA) under a new cap per SB 695 (R. 07-05-025).

The cap is to be set at the maximum total kilowatt-hours supplied by competitive providers during a sequential 12-month period between April 1, 1998 and October 11, 2009. As only reported by *Matters*, the PUC has set a schedule to adopt a transition plan for implementing the new caps by the April 2010 statutory deadline for creating a transition plan (Only in Matters, 11/19/09).

Based on the utilities' calculations, the cap would be:

- PG&E: 9,520,453,983 kWh (PG&E did not list when this load was reached)
- SCE: 11,710 GWh (the 12-month period ending June 2004)
- SDG&E: 3,562,121,799 kWh (the 12-month period ending August 2000)

Per a PUC assigned commissioner's ruling, the utilities also reported, for customers who are eligible for direct access but who are currently on bundled service, whether such customers' three-year bundled service commitment period has expired or will expire by April 2013, and their associated loads in annual kWh (see charts page 6-7).

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Pepco Holdings to Unwind Competitive Commodity Supply Business

As expected since announcing a strategic review almost a year ago, Pepco Holdings said yesterday that it has decided to exit the retail electric and natural gas supply business, and will wind down the commodity supply side of its Pepco Energy Services business unit in an orderly manner. Pepco Energy Services will remain in the energy efficiency/contracting business.

Pepco Energy Services said that it will discontinue signing new retail energy supply contracts, although contracting had already slowed substantially since management opted to add credit and risk premiums to prices a year ago.

Pepco Holdings expects the retail energy supply business to remain profitable based on its existing contract backlog and its corresponding portfolio of wholesale hedges through December 31, 2012, with minimal losses beyond that date, primarily reflecting estimated general and administrative expenses necessary to serve the remaining contracts in excess of estimated revenues from those contracts.

As of November 30, 2009, Pepco Energy Services' supply obligations for future delivery of energy to retail customers consisted of approximately 24.9 million megawatt-hours of electricity and 113 billion cubic feet of natural gas for the period December 1, 2009 through May 31, 2014.

Approximately 52% of the retail electric backlog and 50% of the retail natural gas backlog will be delivered to retail customers by December 31, 2010. An aggregate of 79% of the retail electric backlog and 78% of the retail natural gas backlog will be delivered by December 31, 2011, and an aggregate of 95% of the retail electric backlog and 95% of the retail natural gas backlog will be delivered by December 31, 2012. Substantially all of Pepco Energy Services' retail customer obligations will be fully performed by June 1, 2014.

In connection with the operation of the retail energy supply business, as of November 30, 2009, Pepco Energy Services had collateral requirements of approximately $315 million committed to its wholesale energy suppliers. Of this collateral amount, $186 million was in the form of letters of credit and $129 million was posted in cash. Pepco Energy Services estimates that at current market prices, with the wind down of the retail energy supply business, this collateral will be released as follows: 57% by December 31, 2010; an aggregate of 85% by December 31, 2011; and an aggregate of 95% by December 31, 2012. Substantially all collateral will be released by June 1, 2014.

Pepco Energy Services will record a pre-tax impairment charge in the fourth quarter with respect to its retail energy supply business in the approximate amount of $4.3 million, reflecting the write off of all goodwill allocated to the business. Pepco Energy Services' net income for the nine months ended September 30, 2009 was approximately $32 million.

Pepco Holdings has said that it wishes to use the capital previously devoted to retail supply collateral requirements for transmission and distribution investments with superior returns.

BGE Removes All-in/All-out Requirement from Gas POR Plan

Baltimore Gas & Electric is "willing" to discuss the level of the risk premium embedded in its gas purchase of receivables discount rate, but said that some level of risk factor is necessary since BGE, "will experience new business risks," in providing POR, which is a service outside of its core functions (Only in Matters, 10/9/09).

BGE explained that it relied on the return component it receives under electric Standard Offer Service (per Case 8908) to develop the proposed 1.25% risk factor applicable to both gas and electric purchased receivables. Specifically, BGE said that its current residential electric price to compare is 11.97¢/kWh, with 0.150¢/kWh of that price representing compensation for the "risk" of operating outside of BGE's core business (though Case 8908 squarely defines this adder as a return rather than compensation for risk). BGE divided the 0.150¢/kWh risk component by the residential price to compare to determine the 1.25% proposed risk factor.

BGE also said that it does not intend to file an actual discount rate until "early 2010" when more refined data is available. Other than the 1.25% risk factor, BGE has only discussed what components will be in the discount rate, but has not provided calculations for those components.

Regarding the proposed all-in/all-out requirement, by class, for its gas POR program, BGE said that it is willing to remove the requirement to allow customers to elect their own billing option (dual versus utility consolidated) without impeding the ability of the supplier to participate in POR.

Constellation, NOPEC/NOAC Oppose Unavoidable Rider GCR, PDR at FirstEnergy Ohio EDCs

The FirstEnergy Ohio utilities' proposed Generation Cost Reconciliation Rider (Rider GCR) and Peak Demand Reduction Recovery Rider (Rider PDR) should be bypassable for customers on competitive supply, Constellation Energy, and the Northeast Ohio Public Energy Council and Northwest Ohio Aggregation Coalition, said in testimony in the utilities' Market Rate Offer application.

As only reported in *Matters*, Rider GCR, which is nonbypassable, would include various reconciliations of generation costs and revenue, including under-recoveries caused by the FirstEnergy companies' optional time-based rates for bundled service customers (Only in Matters, 10/21/09). PUCO Staff has opposed the unavoidable nature of Rider GCR (Only in Matters, 11/26/09).

"Simply put, customers that are not taking SSO service from FirstEnergy should not have to pay FirstEnergy for any reconciliations associated with SSO service," Constellation said.

Constellation noted that it appears Rider GCR could be used to true-up under-recoveries due to bundled customers electing the optional time-based rates. If such reconciliations do occur through Rider GCR, "it is simply an inappropriate subsidy that will be paid by customers on competitive retail supply to customers that take an SSO from FirstEnergy," Constellation said.

Constellation also noted that Rider GCR, aside from quarterly generation reconciliations, contains: (1) competitive bidding process expenses, including the fees and expenses associated with the bid manager and any consultant hired by PUCO, and (2) any fees associated with implementing procurement contingency plans. "These costs and expenses bear no relationship whatsoever to a quarterly reconciliation mechanism, and should not be included under Rider GCR," Constellation said.

Rider PDR would recover from all customers, on a nonbypassable basis, the costs of RFPs for demand response which the FirstEnergy utilities will procure to meet statutory load reduction goals. Constellation said that the FirstEnergy companies have not justified their assertion that customers on competitive supply benefit from these RFPs (the utilities have claimed that the RFPs will produce market-wide benefits by reducing generation prices). NOPEC and NOAC agreed that Rider PDR, as well as GCR, "provide cross-subsidization by allocating costs to shopping customers that only benefit SSO customers."

As only reported by *Matters*, the FirstEnergy companies would remove Network Integrated Transmission Service (NITS) from the full requirements product procured for SSO customers, and recover NITS costs on a nonbypassable basis through Rider NMB.

Industrial Energy Users-Ohio opposed such nonbypassable recovery of NITS, calling such a policy inconsistent with the state's unbundling policy.

"FirstEnergy's proposal would, in effect, result in bundled transmission service for customers that elect to receive generation service through a [competitive] provider and is contrary to the State's policies," IEU-Ohio said.

"The proposal appears to create the potential for shopping customers to be subject to duplicative charges for transmission service," IEU-Ohio contended, as FERC has asserted jurisdiction over unbundled transmission service to retail electric customers. "Thus, when a customer elects to receive generation supply from a [competitive] provider, the supplier is required to obtain transmission service on behalf of the retail customer through PJM's open access transmission tariff. Thus, subjecting the customer to charges under FirstEnergy's Rider NMB would result in the customer paying duplicative charges for transmission service," IEU-Ohio said.

Constellation, however, supported the removal of NITS from the full requirements product, agreeing with the FirstEnergy companies that NITS charges are difficult to hedge, and increase risk premiums when included in the full requirements product. "The exclusion of such [NITS] costs and charges from the auction product should be viewed as a benefit to SSO customers," Constellation said.

While in some jurisdictions retail suppliers are essentially either not charged NITS charges, or reimbursed for NITS charges, thereby making their nonbypassable status competitively neutral, treatment of retail suppliers' NITS charges at the FirstEnergy companies was not readily apparent from the companies' MRO filing.

Constellation further recommended that the FirstEnergy utilities make customer lists available to suppliers, and that information regarding a specific customer be more readily available (e.g. usage, PLC, etc.).

NOPEC and NOAC argued that, due to the currently low wholesale market prices, the FirstEnergy companies should not ladder their procurements, and instead should procure, "all SSO requirements at one auction held in the first half of 2010." It's unclear what period this proposed procurement would cover as the FirstEnergy Market Rate Offer is essentially designed to procure load in perpetuity. NOPEC and NOAC said because most government aggregations price generation as a percent off the price to compare, procuring more supplies now when prices are lower will lead to greater savings for aggregation customers as well as SSO customers.

MISO Opposes Retrospective Elimination of RSG Exemption for Intermittent Resources

The Midwest ISO, in a compliance report to FERC on the Revenue Sufficiency Guarantee (RSG) task force, urged FERC to deny the task force's recommendation to remove intermittent resources' current exemption from RSG charges under the current "interim" cost allocation (Only in Matters, 8/10/09).

MISO agreed that, prospectively, intermittent resources should not be exempt from RSG cost allocation, and has filed tariff revisions to remove the exemption in the RSG "redesign" proposal.

However, that doesn't make the interim RSG cost allocation's exemption of intermittent resources unjust or unreasonable, nor does it necessitate refunds under the interim mechanism, MISO argued. "The Midwest ISO does not believe that an adequate basis exists to allocate RSG costs retroactively to such [intermittent] deviations given the inability of Market Participants to revisit commercial decisions based on the expected rate."

MISO also said that, prospectively, the RSG exemption related to resources covered by deactivation of Dispatch Bands should be eliminated, though MISO opposed retroactive elimination of the exemption. MISO also submitted a separate tariff filing to remove the Dispatch Band option from the tariff.

The RSG task force recommended uplifting exempted RSG costs to nearly all market participants (rather than only certain market participants as done now) via the "second pass" methodology, which MISO opposed.

Briefly:

ConEdison Solutions Confirms PPL Residential Market Entry

As expected, ConEdison Solutions, which has marketed to Pike County Light & Power residential customers for some time, confirmed it will soon offer service to PPL residential customers, though it has not yet finalized pricing details.

Spark Energy Seeks Pa. Electric License

Spark Energy applied for a Pennsylvania electric supply license as a retail supplier of electric power to all customer classes, including residential, in all service areas.

Public Power & Utility Seeks Ohio Electric License

Public Power & Utility applied for an Ohio electric supplier license to serve all classes of customers in all service territories.

Detroit Edison Load Migration Nears 10%

Migrated load at Detroit Edison has grown to 8.6% and is nearing the electric choice cap, the Michigan Customer Choice Coalition said yesterday. Although Sen. Cameron Brown, R-Fawn River Township, is expected to introduce a bill to significantly raise the cap late this year or in January, the bill faces serious opposition from Detroit Edison and Consumers Energy.

U.S. Sun Energy Applies for Connecticut Supplier License as Broker

U.S. Sun Energy, Inc. applied for a Connecticut electric supplier license, but said that it is seeking the license to broker load (mostly hotels) and not to function as a load serving entity. U.S. Sun Energy, Inc. currently brokers in Texas (as “Texas Energy Saving”) and said that it has brokered for Direct Energy and Green Mountain Energy.

PUCT Posts Final Contract Renewal Notice, Billing Terminology Rules

The PUCT published adopted versions of amended Subst. R. §25.475 (customer disclosures, specifically, contract renewal notices) and §25.25 (issuance and format of bills, common billing terms) in projects 37214 and 37070, respectively. The final language for amended §25.475 confirms that the termination fee waiver period for small commercial customers remains 14 days regardless of how a REP determines the end date of the customer's fixed price product (actual date or estimate). As previously reported, the Commission voted to alter Staff's proposal and maintain the 14-day waiver period for small commercial customers (applying a longer period only to residential customers with estimated end dates), but neither the proposal for adoption, nor recommended changes to the proposal, contained any language making such a distinction (Only in Matters, 11/23/09). The final language implements the residential-only extended waiver period by stating, "[i]f the REP defined the contract end date by reference to the first meter read on or after a specific calendar date ... no termination penalty shall apply to residential customers after receipt of the contract expiration notice."

Integrys Energy Services Completes Part of Wholesale Gas Sale

Integrys Energy Services has closed the first transaction in its previously announced two-part sale of its wholesale natural gas marketing business. Specifically, with FERC approval for certain capacity release waivers (Matters, 12/1/09), Integrys Energy Services completed the sale of substantially all of its wholesale natural gas marketing business to Sequent Energy Management. As previously reported, the second part of the transaction includes 11.5 Bcf of storage contracts.

DePriest Named President of South Jersey Resources Group

South Jersey Industries promoted Kenneth DePriest to president of South Jersey Resources Group effective January 1, 2010. South Jersey Resources Group provides wholesale commodity marketing and risk management services to clients throughout the southern, eastern and mid-western regions of the U.S., including end users, energy marketers, utilities and natural gas producers. DePriest was previously vice president and COO of South Jersey Resources Group.

Providence Chamber, Constellation Announce Opening in Aggregation Plan

The Greater Providence Chamber of Commerce and Constellation NewEnergy announced the opening of new round of the chamber's Providence Power Program aggregation pool, with the opening running through December 14.

Iberdrola Rebrands Energy East

Iberdrola announced that it is renaming its Energy East holding company "Iberdrola USA," though the names of its distribution company subsidiaries and Energetix/NYSEG Solutions will not be affected. Iberdrola also named former New York ISO CEO Mark Lynch as president of New York State Electric & Gas (NYSEG) and Rochester Gas and Electric (RG&E). Kevin Walker, most recently senior vice president at AEP, was named COO of Iberdrola USA.

WGL ... *from 1*

WGL said that it would process and submit payments twice a month to each supplier. The payments submitted will include the supplier portions of bills that had been scheduled to have been paid as of the 1st and 15th of each month, net of any prior-period adjustments or cancellations, and the existing POR discount rate.

As tariff language has not been developed, more granular questions, such as all-in/all-out requirements, etc., have not been definitively answered.

During working group sessions reviewing whether WGL would amend its compliance filing to pursue POR, WGL asked whether suppliers would enter the market if POR were introduced. In filings yesterday with the PSC, suppliers offered the following comments:

Gateway Energy Services

Gateway has been in the WGL and Baltimore Gas & Electric markets since 2001 and is currently serving customers, but has not undertaken any new marketing campaigns in recent years. Gateway said that it is, "excited about revitalizing our marketing efforts in Maryland if POR programs without recourse can be successfully implemented in the State."

Interstate Gas Supply

"IGS Energy is fully committed to marketing natural gas in Maryland if POR programs without recourse can be successfully implemented in the State."

U.S. Gas & Electric (Maryland Gas & Electric)

"[I]f the POR program is successfully implemented in the state, Maryland Gas & Electric is committed to providing competitive natural gas supplies throughout the state." U.S. Gas & Electric has a pending gas supply license application (Only in Matters, 10/27/09).

Vectren Retail

"Vectren's near-term growth strategies include expansion to selected utility service territories. Approval of a POR program in the Company's territory will place Washington Gas Light high on our list for market entry."

Energy Pus Holdings

"The implementation of a POR program without recourse by Washington Gas Light Company would immediately improve the attractiveness of the Maryland market to our company."

Agway Energy Services also filed comments in support of POR, arguing that it would attract more suppliers to the market, but gave no indication of its own interest in WGL if POR were introduced. The National Energy Marketers Association said that efforts to increase competitive activity through COMAR 20.59 will yield, "maximum value in terms of supplier (and related consumer) participation through WGL's implementation of a POR program," stating that POR will support, "a vibrant choice program with robust marketer participation."

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PG&E annual kWh for DA eligible customers currently on bundled service whose three-year commitment period has **already expired or will by April 2010:**

	CUSTOMER CLASS	Total
Number of Customers	NON-RES	12,463
	RES	2,625
Sum of kWh	NON-RES	2,292,503,840
	RES	21,558,379
Total Number of Customers		15,088
Total Sum of kWh		2,314,062,219

PG&E annual kWh for DA eligible customers currently on bundled service whose three-year commitment period will expire between **April 2010 and April 2011:**

	CUSTOMER CLASS	Total
Number of Customers	NON-RES	67
	RES	705
Sum of kWh	NON-RES	475,119,535
	RES	4,325,113
Total Number of Customers		772
Total Sum of kWh		479,444,648

PG&E annual kWh for DA eligible customers currently on bundled service whose three-year commitment period will expire between **April 2011 and April 2012**

	CUSTOMER CLASS	Total
Number of Customers	NON-RES	117
	RES	397
Sum of kWh	NON-RES	215,657,244
	RES	3,303,277
Total Number of Customers		514
Total Sum of kWh		218,960,521

PG&E annual kWh for DA eligible customers currently on bundled service whose three-year commitment period will expire between **April 2012 and April 2013**

	CUSTOMER CLASS	Total
Number of Customers	NON-RES	173
	RES	389
Sum of kWh	NON-RES	25,214,511
	RES	3,543,789
Total Number of Customers		562
Total Sum of kWh		28,758,300

SCE Direct Access Eligible Customers on Bundled Service

	Non-Residential		Residential		Total	
Bundled Portfolio Service Commitments that:	**Number**	**Annual kWh**	**Number**	**Annual kWh**	**Number**	**Annual kWh**
Have Expired or Will Expire by April 2010	5,201	3,201,961,833	10,303	94,266,079	15,504	3,296,227,912
Will Expire Between April 2010 and April 2011	54	62,815,965	604	8,025,169	658	70,841,134
Will Expire Between April 2011 and April 2012	208	251,746,749	1,656	17,219,490	1,864	268,966,239
Will Expire Between April 2012 and April 2013	104	16,371,907	393	3,980,073	497	20,351,980
Total	5,567	3,532,896,454	12,956	123,490,811	18,523	3,656,387,265

SDG&E Direct Access Eligible Customers on Bundled Service

Bundled Service Commitment Expiration	Number of Residential Customers	Annual kWh	Number of Non-residential Customers	Annual kWh	Total Annual kWh
Already expired or set to expire by April 2010	3,477	24,510,548	1,053	210,451,073	234,961,621
Set to expire between April 2010 and April 2011	116	911,036	19	8,612,093	9,523,129
Set to expire between April 2011 and April 2012	161	1,380,764	26	8,585,677	9,966,441
Set to expire between April 2012 and April 2013	284	2,349,710	57	22,988,852	25,338,562
Totals	4,038	29,152,058	1,155	250,637,695	279,789,753