Energy Choice Matters

February 12, 2010

Allegheny Acquisition to Open New Markets for FirstEnergy Solutions

FirstEnergy and Allegheny Energy have reached a definitive agreement under which FirstEnergy would acquire Allegheny in a stock-for-stock transaction valued at $4.7 billion.

The combined firm, to retain the FirstEnergy name, would have 21 GW of merchant generation, all of which will eventually be in PJM if FirstEnergy's American Transmission Systems Inc. consummates its planned integration. The combined firm would also have 3 GW of rate regulated generation inherited from Allegheny (to serve West Virginia customers). The total addition of 9.7 GW from Allegheny represents a 70% increase in FirstEnergy's capacity.

Generation diversity and regulated transmission expansion were cited by executives as the key drivers of the merger. Still, a noted benefit for Allegheny is the "enhanced retail marketing capability" provided under the merger, as its relatively small retail book, concentrated in Maryland and Pennsylvania, will be combined with FirstEnergy Solutions, the dominant supplier in its affiliated Ohio territories.

Moreover, the approximately 7 GW of competitive generation FirstEnergy will inherit from Allegheny will also provide FirstEnergy Solutions a broader geographic scope for its retail marketing, especially as FirstEnergy Solutions has adopted a strategy of backing its retail sales with its generation assets. That approach has led it to focus on the zones where its generation -- mostly former utility assets -- are located (namely, affiliated distribution companies), to reduce congestion costs, while ignoring other active retail markets. Though FirstEnergy Solutions' generation can reach all retail markets in PJM and the Midwest ISO, it said that in December that it would focus on Western Pennsylvania, Ohio, Illinois and Michigan due to congestion concerns.

FirstEnergy CEO Anthony Alexander said that the Allegheny assets will allow FirstEnergy

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Just Energy Adjusted Earnings Lower on Higher Expenses, Non-Marketing Units

Just Energy Income Fund reported a marginal decrease in adjusted net income for the three months ending December 31, 2009, reporting adjusted earnings of $44.2 million versus $46.7 million a year ago (all figures Canadian).

Positive results from the energy marketing portion of Just Energy's business were offset by losses from its water heater rental and ethanol divisions, both of which are in start-up phases. On a GAAP basis, net income was $97.4 million, versus a net loss of $49.1 million a year ago, reflecting the impacts of hedges.

Seasonally adjusted gross margin from energy marketing increased to $117.8 million from $87.6 million a year ago due to higher realized margins per customer, particularly in the U.S., as well as from a 28% increase in customers (24% of which were acquired with Universal). See chart on page 7 for a breakdown by segment.

Though Just Energy saw a margin increase in U.S. gas gross margin, average gas margins per customer were down at $207 per Residential Customer Equivalent (RCE), versus $231/RCE a year

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N.J. BPU Approves BGS Results

The New Jersey Board of Public Utilities approved the results of the recent Basic Generation Service (BGS) auctions, for one-third of laddered supply for fixed price customers, and 100% of supply for CIEP hourly pricing customers.

Results were as follows:

BGS-CIEP 1-year Tranches:

EDC	Closing Price $/MW-day
ACE	$170.54
JCPL	$177.99
PSE&G	$170.79
Rockland	$185.82

BGS-Fixed Price 36-Month Tranches:

EDC	Closing Price (cents/kWh)
ACE	9.856¢
JCPL	9.517¢
PSE&G	9.577¢
Rockland	10.332¢

When blended with existing Fixed Price supply, results from the recent Fixed Price auction will have the following impact on average residential electricity supply costs:

EDC	Current Bill	New Bill	Change
ACE	$114.60	$114.75	$0.15
JCPL	$119.69	$119.12	-$0.57
PSE&G	$122.27	$121.36	-$0.91
Rockland	$126.38	$125.00	-$1.38

Bills are for usage of 650 kWh per month

A total of 17 companies were registered to bid in the auctions this year. Fifteen of those bidders won the right to provide some portion of New Jersey's electric demand.

The winning bidders of the residential Fixed Price auction were Conectiv Energy Supply, Inc.; Consolidated Edison Energy, Inc.; Constellation Energy Commodities Group, Inc.; DTE Energy Trading, Inc.; FirstEnergy Solutions Corp.; Hess Corporation; J.P. Morgan Ventures Energy Corporation; NRG Power Marketing, LLC; NextEra Energy Power Marketing, LLC; PPL EnergyPlus, LLC; PSEG Energy Resources & Trade, LLC; Sempra Energy Trading, LLC; and TransCanada Power Marketing, Ltd.

Winning suppliers in the BGS-CIEP auction were: Consolidated Edison Energy, Inc.; Constellation Energy Commodities Group, Inc.; DTE Energy Trading, Inc.; Dominion Retail, Inc.; Hess Corporation; Morgan Stanley Capital Group. Inc.; and NextEra Energy Power Marketing, LLC.

SCANA Energy Again Reports Lower Earnings from Move to Fixed Price Products

SCANA Energy reported lower earnings for the fourth quarter from the migration of Georgia gas customers to lower-margin fixed products, which has negatively impacted earnings all year. For the quarter, SCANA Energy reported earnings of $9 million, down from $12 million a year ago.

For the year 2009, earnings were down at $24 million, compared to $33 million a year ago. During an earnings call, executives said that they expect yearly earnings to be stable at around $24 million in the foreseeable future (under normal weather), reflecting the "fundamental shift" in the Georgia market where competition has driven margins on fixed contracts lower than what is priced into variable contracts

As of December 31, 2009, SCANA Energy was serving approximately 450,000 customers, versus the approximately 440,000 it served as of September 30, 2009. SCANA Energy continues to maintain its position as the second largest natural gas marketer in Georgia.

PUCT's Smitherman Rebuts "Urban Myth" of High Texas Electric Rates

PUCT Chairman Barry Smitherman at yesterday's open meeting addressed the "urban myth" that Texas, due to competition, has the highest electric rates in the country.

"I heard the other night, somebody said we had the highest electric rates in the country. That's one of those urban myths like alligators in the sewer system. Because it's not true, we don't. Our rates are really attractive in the competitive areas now," Smitherman said.

Smitherman noted that the lowest rate in the Oncor area is currently 8.2¢/kWh, with short-term fixed rates for 9.4¢ -- both lower than the 2001 regulated rate of 9.7¢.

"Back in 2001, our rates were not the lowest in the country, they're not the lowest in the country now, but we've improved our relative position. States like Louisiana and Oklahoma, who burn a whole lot more coal and a whole lot more nuclear than we do, have lower rates than we do. They've always had lower rates than we do."

Smitherman also noted that the rate at the Garland Power & Light municipal utility is 12¢, and Commissioner Donna Nelson noted that the rate at Pedernales Electric Cooperative is also 12¢.

The remarks were prompted by a discussion of customer complaints regarding Oncor advanced meter installations in the Killeen area, as customers have complained that the new meters have resulted in higher bills. Oncor said that the higher number of heating degree days since the meters were installed have increased usage, leading to higher bills. Oncor said that it tested 472 meters requested by customers, and found only one meter with a problem, a legacy meter that was slow (and thus would under-register consumption). All the advanced meters tested were within a 0.2% tolerance, or more accurate that Commission requirements.

Nelson noted that as a result of media focus on the metering issue, it has become apparent that many of the customers voicing concerns had not shopped recently or had never shopped, and are on a rate (13-15¢) that is much higher than what is available in the market. Nelson encouraged such customers to shop for a lower rate given the currently favorable pricing. Oncor, which has held several town hall meetings with customers, said that several of the meetings included its full Ask Oncor customer education presentation, which includes a section on using Power to Choose.

PUCT Staff, Cleary, Jones to Meet on Nodal Go-Live Price Caps, Constraints

PUCT Staff, ERCOT Chief Technology Officer Mike Cleary, and Independent Market Monitor Dan Jones will discuss whether the PUCT or ERCOT stakeholders should take the lead in developing potential guardrails to be implemented at the start of the nodal market, as contained in Nodal Protocol Revision Request 091 (Only in Matters, 2/2/10).

Staff is to report to the Commission with a recommendation at the next open meeting in March.

As only reported by *Matters*, NPRR 091 would require that the System-Wide Offer Cap (SWCAP) be set to the higher of $180/MWh or 18 mmBtu per MWh times the Fuel Index Price (FIP) during the first 45 operating days of nodal. The NPRR would also establish an Energy Offer Curve floor adjusted to -$50 per MWh, and hold that all transmission constraints are to be treated as non-competitive constraints during an initial 30 Operating Day period.

However, the offer cap provisions, if adopted in the nodal protocols, would conflict with existing PUCT Substantive Rules.

Commissioner Donna Nelson expressed concern about imposing a much lower price cap on the market, stating that concerns regarding market participant and system readiness should be addressed in testing, particularly as the nodal implementation delay has afforded market participants a significant amount of additional time. As for potential abuse of loopholes at nodal go-live, Nelson said that the Commission and ERCOT systems retain the flexibility to address such problems quickly if they are presented, though Nelson said that the Commission should go forward with examining how to address NPRR 091.

Additionally, noting that market participant testing with the nodal systems has not been robust as it should be, Chairman Barry Smitherman said that the Commission will take note of those companies who are lagging behind in certification. ERCOT will begin presenting readiness reports of market participants at the February 15 Board meeting.

Illinois Adopts Emergency Rules on RPS, Supplier Licensing

The Illinois Commerce Commission adopted on an emergency basis several revisions to the requirements for licensure as an alternative retail electric supplier (ARES), and also opened a rulemaking process so that the rules may later be adopted on a permanent basis (Docket 10-0108).

Among the changes are revised financial qualification requirements which the Commission said, "will remove unnecessary confusion for applicants or possible loopholes in the current requirements." The Commission said that, "Staff has crafted the proposed financial requirements to give ARES a choice of several options that gives participants the ability to choose a method that best fits the situation of a particular ARES."

Under the emergency rule, suppliers may now meet the financial requirements for serving only non-residential customers with annual usage in excess of 15,000 kWh if it, "maintains one or more lines of credit with RTOs and/or unaffiliated wholesale suppliers for electric energy for delivery to the service territories of the utilities for which the applicant is seeking a certificate," or, "demonstrates and certifies it is a member of one or more RTOs and purchases 100% of its physical electric energy from the RTOs for delivery to the service territories of the utilities for which the applicant is seeking a certificate," in addition to several other options which are similar to the exiting requirements.

Additionally, the Commission ordered that applicants for a supplier license shall be required to certify that they will comply with the recently adopted RPS and clean coal sourcing requirements.

The emergency rule also adjusts the date to demonstrate continuing compliance with the Alternative Retail Electric Supplier requirements from no later than January 31 annually to no later than April 30 of each year.

Separately, the ICC also adopted on an emergency basis, and opened a rulemaking to adopt permanently, new rules to implement the revised RPS requirements applicable to alternative retail electric suppliers and electric utilities acting as suppliers outside of their franchised territories (Docket 10-0109).

Among other things, the rules set procedures for suppliers to seek waivers of several of the requirements as set forth in statute, and procedures for demonstrating compliance with the clean coal sourcing requirement.

Pa. PUC Requires Suppliers to Demonstrate Compliance with PJM RAA Requirement

The Pennsylvania PUC yesterday approved a motion from Commissioner Wayne Gardner to impose a filing requirement on electric generation suppliers to ensure suppliers are complying with the requirement that before the supplier can purchase or sell electricity in PJM's territory, they must be a PJM registered Load Serving Entity as a party to the reliability assurance agreement, or have a contract with an entity who is such a party.

The motion provides that, "[i]n order to ensure that all licensed EGSs are following through with this requirement, proof of their status as a party to the reliability assurance agreement must be filed with the Commission."

This filing must be made either;

1. Within 120 days of each affected EGS receiving its license or

2. If the EGS has already been licensed, within 45 days of the issuance of the Secretarial Letter notifying them of this decision.

Furthermore, under the adopted motion, each EGS must submit this information to the Commission annually. "As always, failure to follow Commission directives can result in a fine or revocation of authority," the motion states.

Briefly:

Unified Energy Services Receives Pa. Broker License

The Pennsylvania PUC granted Unified Energy Services LLC an electric supplier license as a broker/marketer to serve commercial customers of all sizes in all service areas.

Choice Energy Services Retail Receives Pa. Broker License

The Pennsylvania PUC granted Choice Energy

Services Retail an electric supplier license as a broker/marketer to serve all sizes of commercial customers in all service areas.

Lincoln Energy Group Receives Pa. Broker License

The Pennsylvania PUC granted Lincoln Energy Group LLC an electric supplier license as a broker/marketer to serve commercial customers over 25 kW, industrial customers, and governmental customers in all service areas (Only in Matters, 11/12/09).

Select Energy Partners Receives Pa. Broker License

The Pennsylvania PUC granted Select Energy Partners LLC an electric supplier license as a broker/marketer to serve all sizes of commercial and industrial customers in all service areas (Only in Matters, 12/9/09).

Windstreet Energy Receives Pa. Broker License

The Pennsylvania PUC granted Windstreet Energy an electric supplier license as a broker/marketer to serve commercial customers above 25 kW and industrial customers at PPL and PECO (Only in Matters, 12/14/09).

PUCO Approves Dominion East Ohio SCO/SSO Auctions

The Public Utilities Commission of Ohio approved the results of Dominion East Ohio's Standard Choice Offer and Standard Service Offer auctions. As only reported in *Matters*, both auctions produced a Retail Price Adjustment of $1.20 per Mcf (Only in Matters, 2/11/10).

PUCT Approves New POLR Terms of Service

The PUCT approved, as recommended by Staff, a proposal for adoption concerning new terms of service documents for POLR service (37034, see Matters, 2/8/10).

FirstEnergy ... from 1

Solutions to enter new markets, particularly additional areas of Pennsylvania aside from the western territories.

Alexander reported that he does not believe market power from the combined capacity will be an issue in obtaining necessary regulatory approvals, and does not anticipate any divestitures resulting from the acquisition (FirstEnergy will continue to review selling some assets which it has been considering selling for some time).

Under the combination, 42% of FirstEnergy's merchant assets will be supercritical coal units, which FirstEnergy said have lower heat rates (~9,800 Btu/kWh) and costs (~$20-25/MWh) than subcritical coal units. As the supercritical units are scrubbed, FirstEnergy said that it will be better positioned to meet potential new environmental regulations under the acquisition.

Under the terms of the agreement, Allegheny shareholders would receive 0.667 shares of FirstEnergy common stock in exchange for each share of Allegheny they own. Based on the closing stock prices for both companies on February 10, 2010, Allegheny shareholders would receive a value of $27.65 per share, or $4.7 billion in the aggregate. FirstEnergy will also assume approximately $3.8 billion in Allegheny net debt. The price per share represents a premium of 31.6 percent to the closing stock price of Allegheny on February 10, 2010.

Allegheny will continue with its sale of its Virginia distribution assets, leaving the combined firm with distribution companies in Pennsylvania, Ohio, Maryland, New Jersey, New York (a small slice of Penelec) and West Virginia.

FirstEnergy CEO Anthony Alexander will continue as CEO of the combined firm. Allegheny CEO Paul Evanson will become executive vice chairman of the combined company, reporting to Alexander.

FirstEnergy Earnings

FirstEnergy also reported earnings for the fourth quarter of 2009 yesterday.

FirstEnergy's Competitive Energy Services unit reported a net loss of $97 million for the quarter, reversing net income of $155 million a year ago due several factors, including lower retail and wholesale volumes and lower gross margin from generation, the latter of which accounted for $122 million of the reversal.

Generation margin from sales to the Ohio utilities, Met-Ed and Penelec fell by $15 million versus the year-ago quarter due to the expiration of favorably priced power supply agreements in 2008.

Lower volumes of FirstEnergy Solutions-supplied retail generation sales reduced earnings by $58 million versus the year-ago as decreased sales, primarily as a default service provider in the Ohio franchise territory, more than offset higher unit prices. FirstEnergy Solutions supplied about 77% of affiliated Ohio load in the 2009 quarter (through direct competitive sales or wholesale default service sales), versus supplying nearly 100% of sales in the 2008 quarter. FirstEnergy Solutions' competitive retail sales in the Ohio territories were 4,363 GWh in the 2009 quarter, while Ohio territory sales as a default service supplier were 4,681 GWh.

Across all territories, FirstEnergy Solutions' competitive (non-default service) retail sales increased to 6,209 GWh from 2,315 GWh a year ago. Competitive retail sales in the Ohio territory were up at 4,363 GWh versus 1,431 GWh a year ago. In non-affiliate territories, competitive retail sales were higher at 1,397 GWh versus 501 GWh a year ago. Competitive retail sales were also higher at Penn Power, at 449 GWh versus 383 GWh a year ago.

Just Energy ... *from 1*

ago. The decline resulted from the addition of lower-margin customers acquired from Universal; a 14% decline in the U.S. dollar; and warmer than normal weather in the northern U.S. which required the sale of excess supply into a low price spot market.

In U.S. electricity marketing, Just Energy saw a 148% increase in gross margin from customer growth and higher margins per customer, driven by sales of Just Energy's higher-margin renewable product. Just Energy's Texas book benefited from high consumption supplied with low cost commodity, while the New York book's profitability rose due to continued improvements in supply management, Just Energy said. Average U.S. electric gross margin per customer was $213/RCE compared to $181/RCE a year ago.

Just Energy reported incremental customer growth of 13,000 RCEs versus September 30, 2009, ending the quarter with 2.28 million RCEs versus 2.267 million RCEs as of September 30. About 95% of new customers are on long-term fixed plans.

The bulk of the additions resulted from a net addition of 45,000 U.S. electric RCEs, partially offset by continued churn in the Canadian electric and gas markets (see chart p. 7). Versus December 31, 2008, Just Energy increased RCEs by 28%.

Customer additions in Texas and New York were particularly strong, executives reported.

"Just Energy's major marketing challenge remains the Canadian markets where the disparity between spot prices and the five year prices continues to impact sales. This has hurt both new customer additions and renewals," Just Energy said.

Under these conditions, Just Energy's Canadian marketing force has concentrated on the sale of its green product. "Acceptance of these products was strong but combining their premium price with a continued generally weak economy, sales were insufficient to offset attrition in Canadian gas and electricity," Just Energy said.

Across all markets, the renewable product now makes up 3% of Just Energy's gas portfolio, up from 1% a year ago, and 5% of its electricity portfolio, up from 2% a year ago.

Due to the increase in higher-margin green sales, "the margins on new customer additions continued to exceed target levels despite certain focused price discounts to stimulate sales in markets with very low utility prices resulting in high five year premiums," Just Energy said.

Just Energy sells a green gas product in Ontario, British Columbia, New York and Illinois and a green electric product in Ontario, Alberta, New York and Texas. Just Energy said that it would expand the offering to its other markets over the coming quarters. Some 37% of all new customer volumes are contracted under the renewable option.

In the U.S., gas attrition for the trailing 12 months was 31%, above management's annual target of 20%. Just Energy said that high attrition was due to economic conditions and aggressive contract terminations ahead of the heating season to limit bad debt exposure. The trailing 12-month electricity attrition rate in the

Just Energy Gross Margin – Seasonally Adjusted[1]

For the three months ended December 31

(thousands of Canadian dollars)

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$32,165**	**$25,478**	**$57,643**	$35,775	$25,190	$60,965
Adjustments[1]	**9,350**	**425**	**9,775**	(2,272)	-	(2,2,72)
	$41,515	**$25,903**	**$67,418**	$33,503	$25,190	$58,693
Electricity	**29,265**	**21,090**	**50,355**	20,354	8,507	28,861
	$70,780	**$46,993**	**$117,773**	$53,857	$33,967	$87,554
Increase	**31%**	**39%**	**35%**			

[1] For Ontario, Manitoba, Quebec and Michigan gas markets.

Just Energy Customer Count

Long-term customers

	September 30, 2009	**Gross Additions**	**Attrition**	**Failed to renew**	**December 31, 2009**	**%Increase (Decrease)**
Natural gas						
Canada	791,000	14,000	(21,000)	(25,000)	759,000	(4)%
United States	385,000	44,000	(35,000)	(1,000)	393,000	2%
Total gas	1,176,000	58,000	(56,000)	(26,000)	1,152,000	(2)%
Electricity						
Canada	785,000	18,000	(24,000)	(2,000)	777,000	(1)%
United States	306,000	61,000	(16,000)	-	351,000	15%
Total electricity	1,091,000	79,000	(40,000)	(2,000)	1,128,000	3%
Combined	**2,267,000**	**137,000**	**(96,000)**	**(28,000)**	**2,280,000**	**1%**

U.S. was 17%, below management's target of 20%.

The renewal rate for Just Energy U.S. gas customers was 56%, above the target of 50% on a very small number of renewals (Illinois book only). The Texas electricity renewal rate was 79%, significantly better than the target rate of 60% based on over 44,600 customers.

Average gross margin per RCE increased by 11% quarter over quarter primarily due to the compound impact of higher per-customer margins on new contracts in past quarters offset by a lower U.S. dollar reducing the margin on existing U.S. contracts. The higher margins on past contracts have been a function of strong green sales, opportunistic pricing in a falling market and improved supply management.

The annual margins on contracts of customers signed in the quarter ending December 31, 2009 are to the right. The margins shown to the right exclude any margin from the sale of a renewable component added to the customer contract.

Annual gross margin per customer

	Fiscal 2010	**Annual Target Fiscal 2010**
Customers added in the quarter		
Canada - gas	$174	$170
Canada - electricity	$148	$143
US - gas	$200	$170
US - electricity	$230	$143
Customers lost in the quarter		
Canada - gas	$190	
Canada - electricity	$119	
US - gas	$247	
US - electricity	$125	

General and administrative expenses increased $10 million to $24.8 million, primarily due to the water heating and ethanol businesses, plus the addition of a portion of Universal's energy marketing administrative costs. General and administrative costs related solely to energy marketing were up 44% in the quarter ended December 31, 2009, compared with the same period last year, versus a 28% increase in total customers, resulting from staffing costs to support future growth and increased collection costs.

Marketing expenses, which consist of commissions paid to independent sales contractors for signing new customers, expenses to operate the regional sales offices, and an allocation of corporate marketing costs, were $26.5 million, an increase of 41% from $18.8 million in the prior-year quarter.

Just Energy spent $18.3 million in marketing expenses to maintain its current level of gross margin, which represents 69% of the total marketing expense for the quarter. In the year-ago quarter, marketing expenses to maintain gross margin were only $9.5 million. The increase resulted from higher customer attrition and a greater number of renewals and associated costs versus the comparable quarter.

Marketing expenses to add new gross margin in the quarter totaled $8.2 million, resulting in 13,000 net additions.

The actual aggregation costs per customer added were as follows:

Aggregation Costs

	Nine months ended December 31, Fiscal 2010	Nine months ended December 31, Fiscal 2009
Natural gas		
Canada	**$220/RCE**	
United States	**$183/RCE**	
Total gas	**$192/RCE**	$176/RCE
Electricity		
Canada	**$182/RCE**	
United States	**$165/RCE**	
Total electricity	**$170/RCE**	$150/RCE

Bad debt expense increased to $5.1 million from $4.2 million a year ago.

Just Energy said that it is still ready to pursue the purchase of customer books from distressed retailers if they are immediately accretive.