Energy Choice Matters

February 25, 2010

BGE Raises Proposed Gas Discount Rate due to PSC Order

Baltimore Gas & Electric submitted a higher proposed discount rate for its gas purchase of receivables program pursuant to RM35, reflecting the direction of the Maryland PSC (Only in Matters, 1/20/09).

Per a January 2009 order, the Commission authorized BGE to recover RM35-related program development costs through the Gas Choice and Reliability Charge (GCRC). BGE reported that, at the PSC's January 27, 2010 administrative meeting on the GCRC annual reconciliation, the Commission ordered BGE to remove the approximately $715,000 in IT costs related to RM35 implementation from the GCRC.

BGE noted that in the Commission's October 7, 2009, order regarding electric POR under RM17, the Commission directed BGE to include program development costs in the discount rate. Thus, as the Commission removed such RM35 development costs from the GCRC, BGE proposed recovering those costs in the discount rate, consistent with the manner in which program development costs are proposed to be recovered for electric POR under RM17.

Under BGE's revised discount rate, the development cost is 0.24% for both customer groupings, which increases the residential discount rate to 2.62%, and the non-residential rate to 1.09%. BGE's new proposed discount rates include the following components:

	Residential	**Non-Residential**
Uncollectible Expense	2.13%	0.71%
Program Development Costs	0.24%	0.24%
Operation Cost	0.00%	0.00%
Risk	0.25%	0.14%
Discount Rate	**2.62%**	**1.09%**
Previous Proposed Total	2.38%	0.85%

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Direct Energy Earnings Lower on Bad Debt, Other One-Time Charges

Centrica reported this morning that operating profit from its North American business was broadly flat for 2009 versus 2008 when accounting for the impact of one-off charges in Direct Energy's residential energy business.

When including the one-time charges, operating profit was down 29% at £153 million, versus £215 million in 2008, and was down 38% on a constant currency basis.

During an early morning earnings call, Centrica executives said that the North American market continues to offer considerable growth potential, especially as new markets open. For example, executives reported that Direct added 30,000 customers in Pennsylvania organically.

Direct has scaled back sales of fixed-price long-term contracts in Canada, where the level of required capital support is higher. In Texas, Direct saw a "slight" reduction in customer count, as it

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South Jersey Energy Reports Higher Adjusted Earnings

South Jersey Energy Company posted economic earnings of $800,000 for the fourth quarter of 2009, versus $400,000 in the year-ago quarter, parent South Jersey Industries reported yesterday.

Economic earnings exclude unrealized hedging impacts and realized impacts from certain inventory injection hedges.

The improvement was largely driven by South Jersey Energy Company's previously reported contract to supply electricity to over 400 New Jersey school districts which began in April 2009.

SJI said that in 2009 it expanded its retail supply marketing into Pennsylvania and New York, for both electricity and gas, and New England, for electricity only. South Jersey Energy Company reported 154,000 MWh of sales in New England in 2009, up from 47,950 MWh in 2008. SJI has targeted increasing New England electric volumes another 50% in 2010.

SJI, whose wholesale business is increasing its Marcellus Shale play, said that having end users to whom it can sell the shale gas is one of the key requirements for being a successful wholesale marketer, in addition to having storage and transportation assets to back the supply. SJI said that access to end users drove its previously reported investment in retail supplier EnergyMark, in which it made an equity investment of just under $1 million.

SJI said that it remains active in looking to add to its capabilities to reach and market to end users.

SJI CEO Edward Graham said that in addition to allowing SJI to realize higher margins from its Marcellus Shale supply, the retail business allows SJI to fully optimize the Marcellus supplies while protecting the company from risk. "The other thing we found is that there isn't as much competition in the retail business, so the margins can obviously be positively affected but we can be very selective about the customers we serve, and the credit requirements we place upon them," Graham said during an earnings call.

Columbia SSO Auction Produces Adder of $1.93/Mcf

The Public Utilities Commission of Ohio approved the results of Columbia Gas' Standard Service Offer auction, which produced a Retail Price Adjustment of $1.93 per Mcf.

The auction procured gas supplies for the one-year period beginning April 1, 2010.

The monthly SSO price for sales service customers will be calculated as the sum of the NYMEX settlement price for the prompt month plus the Retail Price Adjustment.

The $1.93 per Mcf Retail Price Adjustment is 60¢ lower than the adder to Columbia's gas cost recovery (GCR) rate, based on a two-year average, and 80¢ lower based on a five-year average, the Ohio Consumers' Counsel reported.

Thirteen suppliers submitted bids during the descending clock SSO auction, and were bidding on what were originally 16 tranches of load. Fifteen bidders were qualified for the auction.

Seven bidders were awarded tranches in the auction, and bidders were limited to a maximum of four tranches. Under the descending clock auction format, there was an oversubscription of 17 tranches bid at a price of $1.93 per Mcf, followed by an undersubscription at $1.92 per Mcf. Under the auction rules, the Retail Price Adjustment was set at $1.93 per Mcf, but the original 16 tranches were further divided into 17 tranches to address the oversubscription.

Bidder identities will remain confidential for 45 days. The auction was conducted by World Energy Solutions.

TXU Partners to Offer Rooftop Solar Leasing Options

TXU Energy has partnered with SolarCity to offer customers in the Oncor territory the ability to lease rooftop solar installations, taking advantage of Oncor and federal rebates and programs for solar.

The solar program is not tied to any TXU electric supply contract, though TXU does offer to purchase its customers' excess distributed renewable generation. TXU currently offers to purchase such excess solar renewable generation at 7.5¢/kWh.

Customers can still take advantage of the TXU-SolarCity leasing offer if they are supplied by another REP, however.

TXU is essentially acting as a broker for SolarCity and will receive a commission for sales.

Customers will be offered leasing options that include installation, monitoring, repairs and insurance for a monthly fee, or the option of owning the system.

Under the leasing option, a 4-kilowatt residential solar system, appropriate for a typical 3-4 bedroom home, would initially cost about $35 a month, with no upfront cost. Customers could purchase the same system outright for $26,000, not including rebates or federal tax incentives.

The lease price is designed such that a customer's sale of excess distributed generation will offset the cost of the lease, based on average usage and production.

KeySpan Long Island Says Impact of Delayed Monthly Balancing Is Minimal

KeySpan Energy Delivery Long Island (KEDLI) believes that the impact of its delay in implementing monthly balancing, "will be minimal" on customers and marketers, it said in response to a New York PSC order (06-G-1186).

As only reported in *Matters*, the PSC had approved various changes to balancing at both KeySpan LDCs in connection with a new gas balancing system which is in development (Only in Matters, 6/24/09). As part of the Commission's June 2009 order, KEDLI was to provide by August 1, 2009, existing daily balanced customers the option of switching to monthly balanced service on an interim basis while the new daily balanced system is being implemented.

KEDLI, however, said that monthly balancing cannot be implemented for these customers until June 1, 2010, reporting that existing customer billing and data warehouse information systems do not support monthly balancing, and that these information systems are needed to support the switching by current daily balancing customers. The PSC then directed KEDLI to further explain the delay (Only Matters, 1/20/10).

KEDLI said that the impact of the delay on marketers and customers is minimal because KEDLI currently has only two marketers serving a total of two customers in the non-core daily balancing program. There are no new inquiries from any other marketers to enroll in this program, KEDLI added.

"In addition, only one marketer, Hess, has expressed an interest in non-core monthly balancing and they indicated their willingness to defer implementation of monthly balancing in favor of a National-Grid wide EBB, which has already been established," KEDLI said.

As for the delay, KEDLI disclosed that aside from the significant changes to its systems to implement the interim monthly balancing solution, much of the delay is also the result of internal miscommunication regarding priorities.

"Although KEDLI was aware that it would be expected to implement a monthly balancing program on short notice when the [September 2008 transpiration collaborative] Report was filed, through inadvertence, it did not begin the necessary work to implement it in a timely manner. Consequently, when the Commission's June 23 Order required monthly balancing to be implemented August 1, 2009, there was not adequate time or resources to perform the required programming. This was due to a miscommunication between the Customer Choice and Information Services ('IS') departments as to the appropriate priorities. In short, the business departments were very focused on what needed to be done to implement the new daily balancing system by November 1, 2011, but this focus caused them to overlook the monthly balancing system that would be needed in the interim," KEDLI said.

Nicor Retail Products Operating Income Rises

Nicor's "Other" segment (which includes retail supply products and services plus other businesses) within its Other Energy Ventures unit reported higher operating income of $21.4 million for fiscal 2009, versus $19.5 million in 2008.

Improved performance resulted from lower operating expenses ($7.0 million decrease) partially offset by lower operating revenues ($5.3 million decrease). Lower operating expenses were primarily from lower average cost per utility-bill management contract, partially offset by higher average contract volumes. Lower operating revenues were due to lower average revenue per utility-bill management contract, partially offset by higher average contract volumes. The retail products and services business also recorded higher selling and administrative costs in 2009.

Operating income from the Wholesale Marketing unit (including Nicor Enerchange) within the Other Energy Ventures category increased to $24.1 million from $5.8 million a year ago. Higher operating income at Nicor Enerchange was due primarily to favorable results from the company's risk management activities associated with hedging the product risks of the utility-bill management contracts offered by Nicor's energy-related products and services businesses. Nicor Enerchange also recorded a $4.3 million decrease in operating expenses due primarily to lower transportation and storage charges attributable to lower natural gas prices.

PUCT Audit Finds Just Energy Lite-Up Discount Procedures Sufficient

A PUCT Staff audit of Just Energy Texas' compliance with the Lite-Up Texas low-income discount program shows that Just Energy's current controls and operational procedures, "are sufficient to detect the provision of erroneous discounts by Just Energy and provide for correct reimbursement," though Staff offered four recommendations.

First, Staff recommended that Just Energy should monitor high-usage (greater than 3,000 kWh) customers to ensure that such accounts are in fact residential, as the audit determined that a redacted amount of accounts to which the discount was applied during the audit period were not residential accounts. Just Energy said the misidentification resulted from a user error.

Second, Staff recommended that Just Energy should ensure that only eligible low-income customers matched by the Low Income Discount Administrator (LIDA) are receiving the rate reduction discount. During the audit period, there were a redacted amount of customers listed on summary reports used by Just Energy when calculating its reimbursement request to the PUCT that were not listed on the applicable LIDA match listings from Solix. Just Energy said that accounts were inadvertently included after they were no longer eligible.

Staff further recommended that Just Energy should ensure that it is applying a rate reduction discount to the electric bills of all newly eligible customers identified by LIDA within the first billing cycle in which it is notified of a customer's eligibility, if notification is received no later than seven days before the end of the billing cycle, or, if not, apply the rate reduction within 30 calendar days after notification is received from LIDA. Just Energy did not timely apply a rate discount to a redacted number of accounts.

Finally, Staff also recommended that Just Energy should work to improve the timeliness of its submissions of the monthly REP Reimbursement for Rate Reduction Discount Report.

Just Energy has already taken several remedial measures in response to the recommendations, and Staff said, "[a]s a result of the audit, it is staff's opinion that Just Energy has taken the appropriate steps to improve the application and reporting of the rate reduction discount."

Briefly:

World Energy Solutions Develops Online Auction for Demand Response Services

World Energy Solutions has launched an online auction for the procurement of demand response services, known as the World DR Exchange. World Energy Solutions said that it was the industry's first online marketplace for demand response. The platform will essentially operate in the same manner as World Energy's supply procurement auction, with the only difference being that, rather than bidding on a unit rate, curtailment service providers will be bidding what percentage of demand response revenue they are offering to share with the customer. Other terms may also be incorporated into the auctions.

BidURenergy Seeks Maryland Broker Licenses

BidURenergy.com applied for Maryland electric and natural gas broker licenses to serve all customer classes in all service territories.

Dominion Retail Wins BHE Load

Bangor Hydro-Electric reported that Dominion Retail won 100% of Standard Offer load for both the medium non-residential class and large non-residential class for the six-month period beginning March 1.

RD Energy Receives Ohio Electric License

The Public Utilities Commission of Ohio awarded RD Energy, Inc. an electric broker/aggregator license to serve all classes of customers in all service areas (Only in Matters, 1/27/10).

ComEd POR Tariffs Docketed by ICC

The Illinois Commerce Commission has docketed Commonwealth Edison's tariffs to implement utility consolidated billing and Purchase of Receivables as Docket 10-0138 (Only in Matters, 1/26/10)

DPUC Approves Accident Reporting Requirements

The Connecticut DPUC approved, without modification, draft rules for the reporting of electric supplier and utility accidents (08-09-02, Only in Matters, 2/24/10). The DPUC has sent the rules to the Attorney General for review and approval.

Integrys Energy Services - Natural Gas, LLC Seeks Illinois License

Integrys Energy Services - Natural Gas, LLC applied for an Illinois alternative gas supplier license to serve all customer classes at Nicor, Peoples Gas, and North Shore Gas. Upon licensing, Integrys said that the new entity will assume the contracts of current supplier Integrys Energy Services, Inc., which will then withdraw its license.

Complainants Withdraw Website Claims in Gexa Variable Rate Case

The variable-rate complainants against Gexa in PUCT docket 37569 have agreed to withdraw any initial claims or contentions that Gexa's form agreements incorporated, by reference, the relevant portions of Gexa's website, as it relates to the question of what documents form the basis of each complainant's contract with Gexa. The question of whether the language in Gexa's contracts referencing its website is interpreted as incorporating statements on Gexa's website into specific the customer contracts (thus creating contractual obligations) had been one of the questions raised by the complaint which could have had broader market implications beyond the complaint case (see Matters, 11/18/10).

BGE ... from 1

BGE said that the program development cost component percent was calculated by amortizing the estimated programming, testing and other information technology costs directly associated with COMAR 20.59 over three years, applying its most recent authorized rate of return to the unamortized balance. BGE divided the amount to be recovered in each of the three years by the estimated gas supplier revenues billed in each of those years. Any difference between the actual program development costs and the amount collected by BGE to recover such costs will be included in the reconciliation component.

BGE noted that, for its electric POR filing, while it has included development costs in the discount rate, it has suggested that such costs could be recovered through base rates, due to the small impact that such costs would have on rates. If the Commission grants this relief, BGE said that gas program development costs should also be included in base rates, since the rate impacts would be "virtually negligible." If such development costs were included in base rates, the discount rate for residential customers would revert to 2.38%, and the discount rate for non-residential customers would revert to 0.85%.

Direct ... *from 1*

delayed price cuts in order to maintain underlying margins on pre-hedged load in the first quarter. The churn was largely offset by growth in the U.S. Northeast, where Direct added about 150,000 customers to bring its Northeast total to 500,000.

However, Direct still saw a slight amount of net churn year-over-year, as North American residential customer count declined to 3.075 million from 3.092 million at the end of 2008.

Direct's residential profitability declined in 2009 due to a £45 million write-off of bad debt in Texas, and £16 million in other one-off charges. The charges reduced operating profit for the North American residential business 31% to £94 million from £137 million in 2008. Operating margin was lower at 3.6% versus 5.2%. Excluding the one-time charges, operating profit was up 13% to £155 million, and operating margin was higher at 5.9%.

Centrica said that it has brought its Texas operational team back in-house to reinforce its customer service focus.

For Direct's business segment, 2009 operating profit increased to £34 million from £11 million in 2008, as operating margin increased to 1.4% from 0.5%.

Direct's business segment saw electricity volumes increase 22% to 33,400 GWh versus the prior year, while gas volumes increased 14% to 689 mmth. Business segment revenue was up 24% to £2.5 billion from £2.0 billion in 2008.

The weak price environment led to a sharp decline in profits at Direct's upstream gas and power generation segment, which posted earnings £7 million for the year, down from £51 million in 2008.

For Direct's home services business, operating profit increased to £18 million from £16 million on efficiency gains, despite the harsh economic climate. Centrica said that it now has a sales process in place to exit its Canadian home appliance repair business, as the diverse nature of this market has made it difficult to generate adequate returns. Centrica said that it will redirect efforts to grow Direct's presence in the energy-related services market, particularly in those regions where Direct has a strong energy base.

Integration of upstream and downstream businesses at Direct remains a medium-term priority, Centrica said.

Centrica has signed an agreement with Suncor Energy under which Centrica will acquire Suncor's Trinidad and Tobago portfolio of gas assets for $380 million in cash. This acquisition provides Centrica with its first producing Liquefied Natural Gas position and significant development opportunities for future, long-term LNG supplies. In addition to development opportunities, the acquisition includes 266 billion cubic feet of proven and probable reserves. During the earnings call, executives said that the acquired portfolio will most likely be used for its British business, but can be applied to its North American business if pricing and market dynamics warrant.