Energy Choice Matters

April 30, 2010

Pa. ALJ Would Allow PECO Electric POR Uncollectibles to be Recovered in Base Rates

A Pennsylvania ALJ would accept PECO's proposal to recover uncollectible costs from its revised electric POR program in base rates, rather than unbundling such costs from base rates and applying them to both a Merchant Function Charge and POR discount rate, in a recommended decision on PECO's petition (P-2009-2143607).

As only reported in *Matters*, a partial settlement resolved most issues in the case, such as the all-in/all-out question and the types of receivables purchased (see recap below), and the ALJ recommended adoption of the settlement without modification, (Only in Matters, 3/25/10).

Two issues were left for litigation, including the Office of Trial Staff's opposition to PECO's proposal to continue to recover uncollectibles in base rates. Trial Staff essentially argued that, for uniformity, PECO's program should follow the unbundling approach undertaken in the PPL 2010 interim POR program.

However, the ALJ, in a brief discussion, said that PECO presented evidence to show that its proposal to recover uncollectibles in base rates is reasonable and should be accepted. The ALJ noted that PECO and retail suppliers presented evidence showing that PPL's POR was developed on an expedited schedule, while the terms of the PPL settlement expire in December 2010. In addition, there are other utilities that have Commission-approved POR programs that are more similar to PECO's proposal than PPL's program, the ALJ noted. Furthermore, Trial Staff's witness

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Dominion Retail Earnings Fall as Lower Gas Margins Mask Customer Growth

Dominion Retail's earnings fell in the first quarter of 2010 on lower gas usage and unit margin, offsetting a net gain of 245,000 new customers, largely in the electric book, executives reported during an earnings call yesterday.

Dominion Retail's earnings, including non-controlling interests before interest and taxes, were $38 million for the quarter. Dominion Retail did not provide a comparison to the year-ago quarter, though reported EBIT a year ago was $45 million (though unclear if it included non-controlling interests). In terms of contribution to net income, retail energy marketing contributed $4 million less for the first quarter of 2010 versus the year-ago quarter. Operating revenue was $676 million for the first quarter of 2010.

Paul Koonce, CEO of Dominion Virginia Power (the division under which Dominion Retail reports), said that the lower retail supply results reflected reduced consumption from unfavorable weather in the gas side of the business, as well as lower gas unit margins. These lower margins offset a net gain of 245,000 customers, largely on the electric side (with the PPL region accounting for much of the gain). As gas plays a smaller role as an earnings driver in the second and third quarters with the end of the heating season, Koonce expects the gains from the new electric customers to be seen in improved results.

In terms of average customer count for the quarter, Dominion Retail saw a net gain of 179,000

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Sweeping Conn. Energy Bill Being Rushed to Finish

Connecticut Energy & Technology Co-Chairs John Fonfara and Vickie Nardello have been engaged in frenzied, last-minute negotiations on drafting a comprehensive energy bill, which, although not finalized, would apparently mandate a 15% cut in electric rates and impose various marketing standards on retail suppliers.

The 2010 session ends on midnight Wednesday.

The bill would replace the DPUC with a Connecticut Energy and Technology Authority and require a 15% cut in electric rates by July 2012.

New standards governing the operation of retail suppliers would also be included.

Despite the concern over Connecticut's "highest rates in the nation," an oft repeated quote during hearings this session, the bill would apparently earmark millions in subsidies for high-cost technologies such as solar. New targets for solar development would be established, though apparently subject to a price cap.

AEP's Morris Notes Competitive Opportunity in Columbus Southern Commercial Class

While the AEP Ohio utilities are still seeing minimal shopping, AEP CEO Mike Morris said during an earnings call that there is margin to be gained by competitors offering discounts from the current commercial rate at Columbus Southern Power, which AEP will react to "aggressively," Morris said.

AEP said that less than one half of one percent of Columbus Southern Power commercial customers have migrated to a competitive supplier. Based on the most recent PUCO statistics (for the month of December 2009), commercial kilowatt-hour sales switched at Columbus Southern was just shy of 2%, with no customer percentage provided.

For industrial customers, AEP Ohio is seeing virtually no migration. "Our price structures for the last half decade have been such that we were untouchable, but in the commercial space at Columbus Southern now, there is a margin to be gained by those offering discounts from our current rates and we'll react to that aggressively," Morris said.

Morris said that Columbus Southern Power has not seen competition from FirstEnergy Solutions, but said that "Direct Energy is [competing], and they continue to pursue a lot of our customers."

"[W]e have decided to react to that in a both ... defensive and offensive approach," Morris said. As only reported by *Matters*, newly formed competitive electric supplier AEP Retail Energy Partners was certified by PUCO in February (Only in Matters, 2/3/10). Morris said that AEP Retail Energy Partners should have the requisite authority to move forward with retail marketing shortly, as it completes utility level certification (EDI testing, bonding, etc.)

"[W]e think there are some places here in Ohio in the South and the West where we can do some of our own farming," Morris said of AEP's competitive retail plans. "[I]t's exactly what the open market in Ohio was intended to do," Morris added.

Morris also said that the electric security plan mechanism in Ohio, "is almost a perfect regulatory setup," and, unsurprisingly, AEP Ohio expects to file for another three-year electric security plan (rather than a market rate offer) in the not too distant future.

However, one drawback of the Ohio regulatory structure is that, "I think it is going to be very difficult going forward for any of us to build new central generating facilities here in Ohio, with the way that [Senate Bill] 221 was written," Morris said. "But there is plenty of time to address that before anyone is going to need to build a new central station here in Ohio, and I think it needs to be addressed," Morris added.

Md. PSC Staff Update Recommended BGE, Delmarva POR Discount Rates

Maryland PSC Staff have submitted an updated recommendation regarding Baltimore Gas & Electric's proposed electric POR discount rates, reflecting further refinements to Staff's Cash Working Capital (CWC) component to reflect historical payment behavior, and to correct a mathematical error in the allocation of programming cost.

Staff's proposed BGE electric discount rates are:

Staff	Res.	Type I	Type II	HPS
Uncollectible	0.3821%	0.3463%	0.1916%	0.0483%
CWC Adj.	0.0977%	-0.0444%	-0.0444%	-0.0444%
Programming	0.1471%	0.0281%	0.0328%	0.0091%
Total	0.6269%	0.3301%	0.1800%	0.0131%

BGE's proposed rates are:

BGE	Res.	Type I	Type II	HPS
Uncollectible	1.1000%	1.0000%	0.5100%	0.1400%
Programming	0.0700%	0.0700%	0.0700%	0.0700%
Risk	0.2200%	0.2000%	0.1000%	0.0300%
Total	1.3900%	1.2700%	0.6800%	0.2400%

(Res. = Residential, HPS = Hourly Priced Service)

Staff recommended that the Commission accept its proposed discount rates and direct BGE to file clean tariffs effective within 30 days of the Commission's order.

The Office of People's Counsel filed comments in support of the revised Staff proposal, further clearing the path for a Commission order, with OPC stressing that the annual reconciliation by BGE for the costs of the POR program actually experienced netted against the actual revenues collected by the company will, combined with Staff's discount rates, ensure proper cost recovery.

Staff also filed updated recommended discount rates for Delmarva:

Staff	Res	Type I	Type II	HPS
Uncollectible	0.6145%	0.5092%	0.0316%	0.0045%
Programming	1.3711%	0.1204%	0.0049%	0.0004%
Total	1.9856%	0.6295%	0.0366%	0.0048%
DPL's Filing	1.7100%	0.9800%	0.7500%	0.7500%

OPC supports the Staff position on the Delmarva discount rates are well.

Staff further recommended that the Commission direct Delmarva to develop a means to continue to bill past due supplier balances or purchase existing receivables upon implementation of POR.

Calif. PUC Posts Agenda Decision Staying Tradable REC Order

The California PUC issued an agenda (draft) decision yesterday that would stay Decision (D.) 10-03-021, which authorizes the use of tradable renewable energy credits for RPS compliance pending adjudication of various petitions for modification. Though a stay has been discussed by various PUC officials individually, the agenda decision represents the first concrete step of Commission action towards a stay (R. 06-02-012).

The stay of the decision would, among other things, temporarily suspend the initial steps to use tradable RECs for RPS compliance. The stay would not invalidate any actions taken on the basis of D.10-03-021 prior to the effective date of the stay.

The agenda decision states that a stay is warranted due to the complex nature of the tradable REC decision, as well as its implications and interrelations to a host of other proceedings and regulations. Thus, it would be more efficient and administratively simple to have entities comply with a finally adjudicated tradable REC decision, which may be accomplished through a stay, rather than forcing market participants to significantly alter their behavior based on any potential changes in the tradable REC decision in response to the petitions for modification.

The utilities and independent power producers have both petitioned the PUC for modification of the tradable REC decision, with the utilities arguing that the price cap and volume limit on RECs imposed upon them by the decision, but not on competitive suppliers, is discriminatory.

PUCO Won't Rule on FirstEnergy Companies' Electric Security Plan by May 5

The Public Utilities Commission of Ohio yesterday said that it will not issue a decision on the FirstEnergy utilities' proposed electric security plan by May 5, stating that the Commission requires additional time to thoroughly review the non-unanimous stipulation.

PUCO Chairman Alan Schriber said that the Commission wishes to conduct a more comprehensive evaluation of the impact of the proposed electric security plan on the FirstEnergy companies' ratepayers, and directed Staff to develop extensive bill analyses that provide the bill impact of the proposed plan for each customer class based upon realistic usage.

The Commission did not indicate when this analysis would be completed, or when it may issue an order in the case.

The Ohio Consumers' Counsel responded by stating that, since statute requires PUCO to determine whether the electric security plan or a market rate offer is the better option, the Commission should require Staff to produce residential customer bill impacts not only for the electric security plan, but also for a market rate offer, to determine which produces lower rates. Furthermore, PUCO should reopen the case if it is going to use information gathered by Staff that is not already part of the record, OCC said, allowing other parties to scrutinize the data.

On behalf of its Ohio utilities, FirstEnergy Corp. said that it is "disappointed" with the delay, also stating that it will continue preparations for a default service load auction, "so that our customers have an opportunity to take advantage of generation prices that are at historic lows." Under the FirstEnergy companies' proposal, the first auction under the electric security plan would be conducted July 13, 2010.

Briefly:

Conn. DPUC Notes PPU Withdrawal of Complaint Against Starion, Continues Investigation

Following up on its April 28 decision to re-open the licensing docket of Starion Energy to investigate various allegations concerning marketing and enrollment initially raised by Public Power & Utility, the Connecticut DPUC yesterday notified Starion and PPU that the investigation will continue despite PPU's request to withdraw its original complaint (Only in Matters, 4/29/10). While PPU's complaint is considered withdrawn by the DPUC, the Department said that its investigation will continue pursuant to Conn. Gen. Stat. §16-245u, which requires the Department, upon complaint or upon its own motion, for cause shown, to conduct an investigation of any possible anticompetitive or discriminatory conduct affecting the retail sale of electricity or any unfair or deceptive trade practices. "PPU's complaint and the evidence gathered thus far have shown cause to warrant further investigation into this matter," the DPUC said (09-10-10RE01).

Mich. Businesses Press for Electric Choice

A group of 37 Michigan businesses have urged Governor Jennifer Granholm and Michigan legislators to enact legislation that will re-establish competition and customer choice in the electric industry. The Michigan businesses represent 877 facilities and nearly $278 million in annual electricity costs as consumers of electricity. The Compete Coalition noted that U.S. Energy Information Administration data shows that Michigan's electric rates increased almost 10% from October 2008, shortly after the 10% cap on competitive electric supply was passed, to December 2009. Michigan's electric rates are now the highest among EIA's North Central Region, which includes Illinois, Indiana, Michigan, Ohio and Wisconsin, the Compete Coalition added. Although work on legislation to raise the current choice cap has been ongoing, no formal legislation has been presented, and it faces an uphill battle, to put it mildly, in the House. Companies signing the letter to Gov. Granholm included Campbell Grinder Company, Wendy's/Arby's Group, Oleson's Food Stores, Dow Corning, Spartan Stores, Dart Container Corp, Heidtman Steel Products, and Marshall Plastic Film, among others.

Luminant ET Services Asks to be Relieved of POLR Status

Luminant ET Services Company has petitioned the PUC to be relieved of its designation as a POLR since it has transitioned to an Option 2 REP, which only serves a registered list of customers and is ineligible to serve as a POLR. Luminant ET is currently designated as a POLR for the large non-residential customer class at Oncor.

Calpine PowerAmerica Seeks to Transition to Option 2 REP in Texas

Calpine PowerAmerica, LP applied at the PUCT to transition from an Option 1 REP to an Option 2 REP serving only a registered list of customers. Calpine PowerAmerica requested approval of the change by the May 21, 2010 deadline for meeting the otherwise applicable new certification standards for Option 1 REPs.

Illinois Chamber Presents Study of Jobs Benefit from Clean Coal Portfolio

The Illinois Chamber Foundation said yesterday that a study by the Regional Economics Application Laboratory at the University of Illinois at Urbana/Champaign shows that a clean coal portfolio in Illinois would create up to 12,300 jobs per year during construction and up to 8,200 per year for 30 years for operations of various clean-coal related projects (including electric generation plus synthetic natural gas and transportation fuels). The study states that, "[t]o keep this study fact based, no attempt has been made to provide estimates of the impacts in terms of energy prices." A cursory review of the study due to deadline does not indicate any specific findings with respect to the Tenaska Taylorville Energy Center integrated gasification combined cycle plant, aside from one statistic related to job creation of approximately 76,000 jobs related to construction and operation over 30 years.

FERC Issues NOPR to Lift Price Cap for Electric Transmission Reassignments

FERC issued a NOPR yesterday proposing to permanently lift the price cap for all wholesale transmission customers that want to reassign their firm transmission capacity rights to others, which FERC said would make the electric markets more efficient (RM10-22). A FERC Staff report found that the secondary market for capacity reassignments experienced strong growth since a temporary lifting of the cap under Order 890-A, with the number of transactions growing from 200 to 32,000 and the volume of reassigned capacity expanding from 3,000 GWh to 36,000 GWh. While few of the reassignments were at prices above the cap, the Staff report found that in markets in which pricing differentials were available, the reassignment prices comported with pricing differentials between those markets, indicating that resale prices reflect market fundamentals rather than the exercise of market power. Based on these results, FERC thus proposes to find that, "there are no significant market power concerns to justify retaining price caps for any transmission customer." With regard to affiliate abuse, the Staff Report found that less than one percent of transactions performed by affiliates during the study period were transacted above the tariff rate in effect during the study period.

R.I. Bill Would Circumvent PUC in Deepwater Wind Approval

A bill (SB 2819) filed in the Rhode Island legislature Wednesday would enable Deepwater Wind and National Grid to enter into a long-term PPA without the need for Public Utilities Commission approval. The PUC recently denied a proposed PPA after finding that its initial price of 24.4¢/kWh was not commercially reasonable. The legislature would authorize the directors of four other state agencies to each review and approve the PPA separately: the similarly named but distinct Division of Public Utilities and Carriers, the Economic Development Corporation, the Office of Energy Resources and the Department of Administration.

PECO ... from 1

has admitted that the unbundling approach would achieve the same result as PECO's proposal (competitive neutrality for uncollectibles), the ALJ said.

With uncollectibles as well as administrative costs recovered in base rates, the only discount to be applied to purchased receivables at PECO would be a temporary discount of 0.2% for all classes to recover implementation costs. The discount is to expire once such costs are fully recovered.

The second issue reserved for litigation was PECO's request for authority to, starting January 1, 2011, terminate customers for non-payment of outstanding receivables PECO has already purchased under the current POR program and were incurred prior to January 1, 2011. The

Office of Consumer Advocate and Office of Small Business Advocate opposed this request as contrary to the PECO restructuring settlement which does not allow for the termination of customers for competitive charges during the transition period which runs through the end of 2010. OSBA argued that, since PECO is already recovering unpaid supplier charges in base rates during the transition period, allowing termination for such charges incurred prior to January 1, 2011, would result in double recovery.

"The arguments advanced by OCA and OSBA concerning the retroactive effect of terminating customers for EGS [electric generation supplier] charges that were protected in the Restructuring Settlement are persuasive," the ALJ found. "[I]t is undisputed that PECO has been able to recover the 90 day payments made to EGSs and will be able to recover implementation costs if unable to terminate customers with unpaid EGS charges. The language in the Default Settlement does not change the protections afforded in the Restructuring Settlement," the ALJ said, recommending that PECO's ability to terminate service for unpaid competitive supply charges should apply only to those charges for service incurred on and after the date on which PECO's revised POR program is implemented, and only for those supplier charges which include basic electricity supply.

As previously reported, the POR settlement defines basic electricity supply as energy (including renewable energy) and renewable energy credits or alternative energy credits (RECs/AECs) procured by a retail supplier, provided that the RECs/AECs are bundled with the associated delivered energy. Basic electricity supply does not include a non-generation product (e.g., service contract for appliances, or payment for energy reductions such as demand response products), or renewable or alternative energy credits that are not associated with delivered energy. For residential customers, basic electricity supply shall not include early contract cancellation fees, late fees, or security deposits assessed by a supplier.

The POR settlement which is now recommended for adoption would impose an all-in/all-out requirement on residential customers only, except that a supplier may certify to PECO that its residential product either includes charges other than those for basic electricity supply, or cannot be billed by PECO's utility consolidated billing, in which case the supplier may dual bill the customer, with the customer not included in the POR program.

Dominion ... *from 1*

versus December 31, 2009. A breakdown of average customer count by product type is shown below:

	Q1 '10	Q4 '09	Q1 '09
Natural Gas	608,470	617,397	621,107
Electric	659,462	483,473	368,358
Products & Services	686,101	674,347	641,348
Total	1,954,032	1,775,217	1,630,812

The large increase in electric customers was also reflected in volumes, shown below:

Volumes Sold	**Q1 '10**	**Q1 '09**
Natural Gas (mmcf)	42,367	43,638
Electricity (MWh)	2,891,385	1,443,605

Dominion's merchant generation recorded earnings, including non-controlling interests, before interest and taxes of $289 million, with no comparison provided to the year-ago quarter, though earnings were down due to lower margins. Lower merchant margins negatively impacted net income contribution by $71 million versus the year-ago period, while Dominion Generation's energy supply margin contributed $8 million less to net income versus the year-ago quarter. Dominion Generation, which includes merchant and ratebased assets, recorded lower operating earnings of $325 million versus $369 million a year ago on the weaker merchant results.