Energy Choice Matters

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WGES Earnings Flat as Higher Expenses Offset Higher Electric Margins

WGL Holdings reported non-GAAP operating earnings from its retail energy marketing segment of $3.5 million for the second fiscal quarter of 2010, versus $3.4 million a year ago, reflecting the offsetting effects of higher realized margins from the sale of electricity and higher operating expenses associated with marketing and customer acquisition costs.

The retail energy marketing segment posted a GAAP loss of $11.4 million, versus a loss of $667,000 a year ago, due to a tripling in unrealized mark-to-market losses.

Electric gross margins were about $1 million higher than the year-ago quarter on higher volumes, reflecting an increase in both residential and commercial customers. Unit margins were lower due to a greater mix of commercial accounts, as well as timing differences.

Natural gas margins were hurt due to warmer weather in March, and, after the close of the quarter, April as well, which caused Washington Gas Energy Services to sell excess supplies at unfavorable prices. However, offsetting these factors were lower-than-expected marketing costs as WGES did not incur expected expenses related to increased Maryland marketing due to a delay in the implementation of Purchase of Receivables. Bad debt has also decreased faster than expected.

Washington Gas Energy Services grew its natural gas customer count to 159,700 as of March 31, 2010, compared to 158,100 natural gas customers as of December 31, 2009, and 141,500 as of March 31, 2009.

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Bad Debt Problem in ERCOT Market Requires Switch Hold, REPs Say

"[T]he bad debt problem [in ERCOT] is serious and has substantially grown since the opening of the competitive electric market," the Retail Electric Provider Group said in comments supporting the PUCT's proposed rule for deferred payment plans and disconnections which contains a switch hold. The REP Group includes the Alliance for Retail Markets, Direct Energy (and affiliates), Texas Energy Association for Marketers, and TXU Energy (36131).

The REP Group noted that TXU Energy, First Choice Power and Reliant Energy incurred bad debt totaling more than $200 million in 2009. Bad debt for these three companies ranged from 1.46% of revenues to 7.75%.

In contrast, prior to the opening of the competitive electric market, integrated utilities reported uncollectible amounts to be between 0.124% and 0.675% of revenues. Austin Energy's bad debt was recently as low as 0.5%. The REP Group also compared ERCOT bad debt levels to levels in the 1% range in competitive markets which have Purchase of Receivables, which impose a hard disconnect on competitive supply customers through the transfer of such receivables to the distribution utility.

The REP Group further noted that for one REP, approximately 40% of unpaid final bills were from customers in the collections path who received a disconnection notice and changed their REP before being disconnected. Based on that REP's data, another 29% of unpaid final bills in the

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South Jersey Energy Company Adjusted Earnings Higher

South Jersey Industries reported lower economic earnings from its Retail Energy segment of $2.4 million, versus $2.6 million a year ago, as lower heating and cooling demand at its thermal plants offset gains in competitive electric sales. The Retail Energy segment includes competitive commodity marketing as well as energy-related projects and services.

Economic earnings exclude unrealized mark-to-market impacts. When including unrealized mark-to-market losses in the first quarter, Retail Energy's loss from continuing operations was $6.4 million, versus income of $436,000 a year ago.

South Jersey Energy Company, SJI's competitive supplier, reported economic earnings of $1.7 million for the first quarter, versus $700,000 a year ago. Most of the gains were driven by margins for an electric contract with some 400 New Jersey schools which began flowing in the second quarter of last year. South Jersey Energy Company said that the contract contributed $1.2 million in pre-tax margin, and will contribute another $2.2 million in margin for the duration of the contract through April 2011. South Jersey Energy Company recently renewed the contract through May 2012 at similar margins.

South Jersey Energy Company's expansion into New England continues, with its New England electric sales growing to 61,000 MWh for the quarter, versus 26,000 MWh a year ago.

In January, South Jersey Energy Company starting serving customers in Pennsylvania.

Integrys Energy Services Looking for Opportune Sale of ERCOT Book

Core earnings at Integrys Energy Services decreased to $5.4 million in the first quarter of 2010, versus $22.3 million a year ago, on lower retail margins reflecting the suspension of marketing activity as Integrys Energy Group evaluated the business segment last year. On a GAAP basis, Integrys Energy Services recorded a loss of $48.5 million for the quarter, versus $19.4 million a year ago, on charges related to the exit from its wholesale businesses.

Integrys Energy Services' realized retail electric margin decreased to $17.4 million, from $23.6 million a year ago, due to a $3.7 million decrease in the Illinois market, where Integrys Energy Services' volumes dropped 27% on reduced marketing efforts during the business's strategic review. Illinois is Integrys Energy Services' largest electric market.

Retail electric margin also decreased by $2.3 million in Texas, where Integrys Energy Services has scaled back activity as it plans to exit the market. During an earnings call, Integrys Energy Services CEO Mark Radtke said that Integrys Energy Services is prepared to move forward with a sale of the ERCOT book as opportunities present themselves. Though the ERCOT exit has been previously discussed by Integrys, it had referred to a process of letting the contracts roll-off naturally without an asset sale.

Realized retail electric per unit margins were lower at $5.52/MWh versus $5.93/MWh a year ago. Physical retail electric volumes were 3,153.3 GWh, versus 3,997.3 GWh a year ago.

Integrys Energy Services' realized retail natural gas margins decreased to $29.2 million for the quarter, from $39.5 million a year ago, due to an $8.1 million decrease in the Illinois market caused by the quarter-over-quarter negative impact of the withdrawal of a significant amount of natural gas from storage in the first quarter of 2009, resulting in realized gains during that period. The sale of the Canadian gas book in late 2009 also led to lower margins versus the 2009 quarter.

Realized retail natural gas per unit margins were higher at $0.58/Dth versus $0.42/Dth. Physical retail gas volumes were 50.4 Bcf, versus 97.3 Bcf a year ago.

Executives said during an earnings call that as Integrys Energy Services has begun actively marketing again, it is replacing lower margin legacy contracts with higher margin contracts reflecting new market conditions. Compared to the year-end of 2009, Integrys Energy Services has about an additional $5 million of forward book value for the remainder of calendar year 2010, equaling about 800,000 megawatt-hours.

Pa. PUC Adopts UGI Default Service Settlement

The Pennsylvania PUC adopted a settlement to establish a default service plan for commercial and industrial customers with peak demands of 500 kW or less for the period June 1, 2011 though May 31, 2014 at UGI Utilities which relies on the use of one-year full requirements contracts (P- 2009-2135496). The PUC's order approving the settlement contained "minor editing and clarifications" but a written order with such revisions was not available.

Under the settlement, UGI will conduct semi-annual RFPs to procure one-half of the required supply for commercial and industrial customers with demands of 500 kW or less (Group 2 customers) on one-year, full requirements contracts (Only in Matters, 3/10/10). The RFPs will procure full requirements contracts with 90% of the projected annual Group 2 load priced as a full requirements, load-following service, and the remaining 10% priced as a spot market purchase service.

In a statement, PUC Chairman James Cawley said, "[i]t is hoped that this relatively small load will garner sufficient wholesale bidders to take advantage of competitive bidding. If not, the consideration of an alternative default service supplier option to aggregate load associated with smaller electric utilities should be evaluated."

Furthermore, while Cawley credited the settlement for recovering some incremental administrative costs associated with default service from default service customers, Cawley said that the settlement, "still falls short of removing all subsidies to default service."

"Substantial subsidies, including bad debt expense and working capital associated with default service, have not been addressed. The implementation of a properly designed Purchase of Receivables (POR) program would largely address these additional default service subsidy concerns. Additionally, a POR program would achieve an equally important objective of encouraging competitive offers to residential customers," Cawley added.

"Lastly, the Settlement Petition indicates that UGI will continue to follow Electronic Data Exchange Working Group (EDEWG) standards yet the attached schedule and record in this case does not provide for the exchange of interval data for large customers - either on a monthly or annual historical level," Cawley noted.

"In order to attract multiple competitive Electric Generation Suppliers (EGSs) to enter this market and provide more advanced and more dynamic pricing offers, UGI is encouraged to implement more standardized EDEWG transactions, including the Interval Usage (IU) and Historical Interval Usage (HIU) transactions. While UGI may have manual, non-standard processes for this interval data exchange, continuation of these non-standard, manual processes will continue to impose barriers to competitive market entry - to the detriment of its customers," Cawley said

TXU Energy Renews Voluntary Summer Disconnect Protections

For a fourth year, TXU Energy is again offering a voluntary summer disconnect moratorium with deferred payment plan to eligible customers, specifically, customers designated as low-income, ill or disabled, or who are at least 62 years of age.

For customers eligible for deferred payment plans under the PUCT rules, TXU will offer enhanced customer protection, by providing customers with five months to pay off the deferral, versus the three months required in the current rule. Per rule, these customers may pay 25% of the outstanding balance to start the deferral.

For customers who are designated as low-income, ill or disabled, or who are at least 62 years of age but who would not qualify for a deferred payment plan under the PUCT's rules (perhaps due to a delinquency), TXU is voluntarily offering a deferred payment plan to these customers if the customer pays 50% of the outstanding balance at the start of the deferral. These customers will also be given five billing cycles to pay off the deferral.

For customers designated as either (1) both low-income and who are at least 62 years of age, or (2) ill or disabled, TXU is alternatively offering to allow customers to avoid disconnection by having the customer pay 50% of a bill that becomes due in each of the months of July, August and September. Beginning with the first electric bill due after September 30, 2010, customers subscribing to this plan will be required to pay the deferred balance in equal installments over the next five bills in addition to their actual charges for that month.

TXU will also offer these customer groups an average billing option, apparently (though not explicitly) even if the customer would not otherwise qualify for average billing.

TXU Energy will also waive deposit requirements for residential customers who are at least 62 years of age and for all customers with a good record of timely payment, in addition to waivers required by rule.

Briefly:

SCANA Energy Earnings Higher on Cold Weather

SCANA Energy reported higher first quarter earnings of $30 million, compared to $22 million a year ago, on colder weather in Georgia and associated higher volumes. SCANA Energy's customer count as of March 31, 2010 was 465,000, versus about 450,000 as of December 31, 2009, and flat versus the year-ago period. SCANA Energy remains Georgia's second-largest marketer.

Energetix Receives Pa. Electric License

The Pennsylvania PUC granted Energetix an electric generation supplier license to serve all sizes of customers, including residential customers, in all service areas.

Clearview Receives Pa. Electric License

The Pennsylvania PUC granted Clearview Electric an electric generation supplier license to serve all sizes of customers, including residential customers, in all service areas.

Mich. Bill to Raise Choice Cap Introduced

Michigan Sen. Wayne D. Kuipers, R-Holland, and Rep. Roy Schmidt, D-Grand Rapids, have introduced anticipated legislation that would raise the Michigan electric choice cap from 10% to 25% (Senate Bill 1317 and House Bill 6127). "This compromise legislation will maintain the framework of the 2008 law, but give the free market a larger role in controlling prices," said Sen. Kuipers. "A constituent was able to show me firsthand how critical electricity rates are to businesses trying to keep costs contained and how important it is to have choice in the utility market place," said Rep. Roy Schmidt. "The savings realized will allow some businesses to grow and add jobs, some to simply maintain their workforce and some to lower the costs of goods sold. This is good for Michigan businesses, workers and residents," Schmidt added. The bill still faces a stern test in the House.

Energy Services Group Sells Two Additional Texas REPs

Energy Services Group informed the PUCT that it has sold certified REP TexRep8, LLC to Pacific Fuels of Hurst, Texas. Energy Services Group further informed the PUCT that it has sold certified REP ESCO1, LLC to D. Rit Hanley of McKinney, Texas. Energy Services Group said that the sale agreements of the REPs require the new owners to apply for certificate amendments, but provided notice of the sales to the PUCT since neither of the new owners has filed for such an amendment yet.

DTE Energy Supply Receives Ohio Electric License

DTE Energy Supply has received an Ohio retail electric supply license to serve commercial, mercantile and industrial customers in all service areas (Only in Matters, 3/31/10).

Patriot Energy Group Receives Pa. Gas License

The Pennsylvania PUC approved the natural gas supplier license of Patriot Energy Group to serve all sizes of commercial and industrial customers at all of the major service areas. The PUC order granted Patriot Energy Group a license as a, "supplier of natural gas supply services and a broker/marketer," however, Patriot Energy Group was originally seeking certification as an aggregator and broker/marketer, with no revised application appearing in the docket.

The Loyalton Group Receives Pa. Broker License

The Pennsylvania PUC granted The Loyalton Group an electric broker license to serve all sizes of non-residential customers in all service areas.

BTU Energy Receives Pa. Broker License
The Pennsylvania PUC granted BTU Energy LLC an electric broker license to serve all customer classes in all service areas.

Great Lakes Energy Receives Pa. Broker License
The Pennsylvania PUC granted Great Lakes Energy LLC an electric broker license to serve all sizes of non-residential customers in all service areas.

GSE Consulting Receives Pa. Broker License
The Pennsylvania PUC granted GSE Consulting an electric broker license to serve all sizes of non-residential customers in all service areas.

Pa. PUC Grants PECO Load Cap Waiver
The Pennsylvania PUC granted PECO's petition to raise the load cap for the small commercial class from 65% to 67% for its Spring 2010 default service procurement only (Only in Matters, 4/20/10).

Pa. PUC Grants Budget Billing Waivers to Two Suppliers
The Pennsylvania PUC granted Energy Plus Holdings LLC a temporary waiver of the budget billing requirement until PPL Electric Utilities' billing period beginning Sept. 1, 2010. The PUC also granted BlueStar Energy Services a temporary waiver of the budget billing requirement until PPL's billing period beginning November 2010 or the implementation of PPL's billing system that will permit supplier consolidated billing. Both suppliers said a waiver was required because of limitations in PPL's current system in calculating supplier-related budget bill amounts and the need for suppliers to provide this information themselves, and necessary time to upgrade their own systems to accomplish these required calculations (Only in Matters, 3/21/10).

Calif. PUC Stays Tradable REC Decision
The California PUC adopted a stay of its decision permitting the use of tradable RECs for RPS compliance.

PPL Supply Unit Earnings Higher
PPL Corp. saw higher reported earnings from its Supply segment of $137 million, versus $105 million a year ago, on the expiration of a legacy supply agreement with PPL Electric Utilities. Earnings from ongoing operations at the Supply unit tripled at $244 million, versus $81 million a year ago. The expiration of a legacy supply contract between PPL EnergyPlus and PPL Electric, and the replacement with higher-margin contracts hedged prior to the economic crisis, lifted Supply's ongoing earnings by $200 million. Partially offsetting this gain were lower net margins from load-following agreements due to lower than expected customer demand, higher operations and maintenance expenses, and higher depreciation.

RRI Energy Reports Higher Loss from Continuing Operations
RRI Energy reported a loss from continuing operations before income taxes for the first quarter of 2010 of $214 million, compared to $140 million for the first quarter of 2009. The 2010 reported results include impairments of long-lived assets totaling $248 million, net unrealized gains from energy derivatives of $127 million, and a $17 million charge for Western states litigation and similar settlements. RRI said that open EBITDA was $25 million for the quarter, compared to $6 million a year ago. The improvement was primarily due to improved capacity prices and lower general and administrative costs. Adjusted EBITDA was $32 million in the first quarter of 2010, compared to $20 million in the first quarter of 2009 RRI has 1,150 MW located in the American Transmission Systems Inc. footprint which is migrating to PJM. RRI reported that it sold and cleared all of this generation in the ATSI integration auction for the planning year 2011, and about 750 MW of this generation in the integration auction for the planning year 2012. The future forward capacity revenue from all of the RRI capacity sold in the integration auctions totals approximately $54 million.

First Choice Power Bill Wins Plain Language Award
First Choice Power received a national ClearMark Award, honoring the best or most

clear language, for its newly designed electricity bill. The Center for Plain Language selected the First Choice bill from 160 submissions. "We listened to our customers and are putting more clarity around what they want to know about their energy usage," said Brian Hayduk, president of First Choice Power, as the new bill is easier to read, and is graphically and textually more user friendly through improved use of color, a large account number, and bold type.

WGES ... *from 1*

WGES electric customer count increased to 130,100 from 123,800 as of December 31, 2009, and 70,600 a year ago. The electric customer growth reflects only a handful of new Pennsylvania customers as most of WGES' new Pennsylvania accounts did not start flowing until after the end of the quarter. WGES said that Pennsylvania electric acquisitions have been in line with its business plan, and number in the thousands.

WGES further said that it is looking at expanding its Pennsylvania marketing to include natural gas.

Despite the increases in customer count, WGES said that the pace of customer acquisition slowed during the quarter ending March 31, 2010 due to the harsh winter weather in its markets which hindered door-to-door sales.

WGES said that for the fiscal year 2010, it is on track to supply 10% of all electricity sales in the Maryland, Delaware and District of Columbia region, and supply 15% of all natural gas sales in the Maryland, Delaware, District of Columbia and Virginia region.

WGES natural gas volumes for the quarter were 266.0 million therms versus 272.7 million therms a year ago. Electric sales were 2.13 billion kWh, versus 1.04 billion kWh a year ago.

Switch Hold ... *from 1*

analysis were from customers who were disconnected and never reconnected.

Furthermore, the REP Group said that aggregate data shows 52% of customers who accepted deferred payment plans defaulted on payments, while 38% of residential customers who changed providers (switched or moved away) during the period left an unpaid balance that REPs were unable to recover.

Imposing a switch hold on customers entering into deferred payment plans would be a first step in solving the bad debt problem, the REP Group said.

The REP Group opposes any minimum amount deferred to trigger a switch hold, as a $500 minimum trigger would equate to two delinquent invoices plus a current invoice (for most of the year). Tracking the deferred balance for level and average payment plans subject to a switch hold would also be difficult because those balances increase, as well as decrease, on a monthly basis, the REPs said, complicating the process for determining when the customer would fall below the minimum switch hold threshold.

Reliant Energy, however, supported a minimum threshold if a switch hold is adopted, since a REP could impose a switch hold for as little as $1 without a threshold.

The REP Group also asked that REPs be allowed to collect at least 50 percent of the delinquent balance as an initial payment when customers who are delinquent seek to establish a level or average payment plan.

Reliant Energy reiterated its opposition to a switch hold, citing it as inconsistent with PURA §39.101(b)(2), as well as PURA §39.106, the latter of which requires POLRs to, "provide the standard retail service package to any requesting customer."

"Because POLR service must be available to any requesting customer, a switch-hold policy may ultimately be unenforceable," Reliant said.

"Reliant is concerned about the cumulative effect of having a segment of customers' unable to readily switch REPs. First, the public perception of Texas's success with competition would be jeopardized. Consider the potential for headlines about a customer being 'held captive,' with the details about the customer's outstanding balance left out. This type of news story, repeated even a handful of times, would lead to public backlash. Additionally, Reliant remains concerned about the mechanics of the process ... the complexity and manual intervention required by the switch-hold could lead to errors and delays - in addition to system and process costs. In short, a significant portion of a REP's daily activities would have to change from processing customer acquisitions to investigating why customer acquisitions can't be processed," Reliant said.