Energy Choice Matters

May 21, 2010

Just Energy Earnings Higher on Acquisitions, Increased Margins

Just Energy reported adjusted net income of $185 million for fiscal 2010, up from $170 million a year ago, on inorganic customer growth and higher margins per customer (all figures Canadian).

When including unrealized mark-to-market impacts, net income for fiscal 2010 (the 12 months ending March 31, 2010) was $231 million, versus a loss of $1.1 billion a year ago.

Seasonally adjusted gross margin was higher at $426 million versus $315 million a year ago, as gross margin grew at a faster rate than revenue which increased to $2.3 billion from $1.9 billion a year ago.

Gross margin growth was driven by a 28% year over year increase in total customers, higher margins per customer (particularly in the U.S.) due to opportunistic pricing and continued strong acceptance of higher-margin renewable offerings, and improved supply management, particularly in Texas (see chart on p. 7 for gross margin details).

Total customers grew to 2.293 million Residential Customer Equivalents (RCEs) at the end of fiscal 2010, versus 2.280 million RCEs as of December 31, 2009, and 1.790 million a year ago (see chart p. 8 for details). While gross organic customer additions for fiscal 2010 were higher at 505,000 RCEs, net customer additions from organic marketing efforts were lower at 73,000 versus 103,000 a year ago, due to higher attrition experienced on the larger customer base. Record gross additions through marketing were offset by the continuing effects of the weak U.S. economy. "Solid" customer

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Pa. PUC Approves Duquesne Light POLR V Settlement

The Pennsylvania PUC has approved a settlement to establish Duquesne Light's default service plan for the period January 1, 2011 through May 31, 2013, which includes a fixed residential price of 7.86¢/kWh for the duration of the default service plan, absent PUC-approved changes (P-2009-2135500).

The residential power will be procured by Duquesne Light bilaterally under a managed portfolio.

Under the settlement, Duquesne Light will procure power to provide service to small commercial and industrial customers (less than 25 kW maximum peak demand) and medium commercial and industrial customers (from 25 kW up to, but not including, 300 kW maximum peak demand) for the 29-month period using five (six for medium C&Is) staggered RFPs to obtain full requirements contracts (full discussion in 2/26/10 story). Hourly pricing will continue for large customers.

Duquesne Light will continue to purchase receivables under the same rules and conditions applicable to the current POR program. The discount rates will be 0.52% for residential and small commercial customers and 0.28% for medium commercial customers.

Vice Chairman Tyrone Christy lauded the settlement's use of an active portfolio for residential supplies as an improvement over the "mechanical issuance by an EDC of a series of scheduled RFPs for full-requirements supply contracts." The active portfolio management will allow Duquesne Light to manage migration risk more cost effectively than a full requirements contract, Christy said.

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Briefly:

Duke Energy Ohio to Join PJM

Duke Energy confirmed plans to change the membership of Duke Energy Ohio and Duke Energy Kentucky from the Midwest ISO to PJM, providing access to the RPM capacity market. Duke recently said a decision was imminent in discussing its 2009 earnings (Matters, 2/17/10). "Joining PJM will bring long-term benefits for Duke Energy's Ohio customers because it puts all Ohio utilities in the same wholesale market, where customers will benefit from the same wholesale and retail market rules," said Keith Trent, group executive and president of Duke Energy's Commercial Businesses. Duke Energy's Commercial business segment operates 7,600 megawatts of wholesale generation, primarily in the Midwest. Six of those plants are co-owned with Dayton Power & Light and American Electric Power, both of which are members of PJM.

Calif. PUC Prohibits Utilities from Offering Alternative CCA Opt-Out Mechanisms

The California PUC approved modifications to Decision 05-12-041 to prohibit utility marketing against community choice aggregations that is misleading or deceptive, but the decision does not prohibit all utility marketing against CCAs. Substantively similar to the draft decision which was only reported in *Matters*, the PUC's order prohibits the utilities from offering alternative opt-out mechanisms than those identified in the CCA-specific information provided by the CCA pursuant to Resolution E-4250. The PUC affirmed that CCAs are not required to use a utility-provided opt-out process (see Matters, 5/5/10 for more details). One change in the final order is that the Commission invited comment as to how, if at all, the Commission can provide a forum for utility complaints against CCA marketing, despite its limited jurisdiction over CCAs, in response to Pacific Gas & Electric's argument that the PUC was "singling-out" utilities' marketing efforts (R. 03-10-003).

Titan Gas Receives Authority to Market to Residential Customers at PECO

The Pennsylvania PUC granted Titan Gas and Power's application to amend its current natural gas supply license to include authorization to serve residential and small commercial customers at PECO (Only in Matters, 4/12/10).

Calif. PUC Extends Open Enrollment Window

Consistent with a draft order, the California PUC extended the Year One direct access open enrollment window until July 15, 2010, to provide wait-listed customers an opportunity to submit switch requests. The start of the Year Two Notice of Intent period is pushed back to July 16, 2010 (see full discussion, Matters, 5/3/10).

NRG Files to Suspend Operations at S. R. Bertron 2

ERCOT has received a Notification of Suspension of Operations for NRG Texas Power's S. R. Bertron Unit 2.

Pa. ALJ Recommends Adoption of Columbia POR Settlement

A Pennsylvania ALJ has recommended approving the settlement regarding a revised Purchase of Receivables program for Columbia Gas without modification, in a recommended decision released by the PUC this week. Full discussion in our 4/21/10 story.

Luminant ET Services Removed as POLR

PUCT Staff granted Luminant ET Services' request to be removed as a non-volunteer POLR for the large non-residential customer class at Oncor due to its transition to an Option 2 REP, which are ineligible for POLR service. Nine REPs remain as non-volunteer POLRs for the Oncor large non-residential customer class.

Pa. PUC Approves Transfer of License to DTE Energy Supply

The Pennsylvania PUC approved the transfer of DTE Energy Trading's electric generation supplier license to DTE Energy Supply.

Just Energy to Relinquish Unused Texas REP Certificates

Just Energy sought to relinquish its unused Texas REP certificates acquired from Hudson Energy JV (10182) and Universal Gas & Electric (10148). Neither certificate has ever been used to serve customers.

Md. PSC Orders Review of Entire SOS Administrative Charge at Three Utilities

The Maryland PSC has ordered that the review of the requests from several electric distribution companies to adjust their allowed cash working capital (CWC) cost recovery in SOS rates shall be expanded to include an investigation into all components of the SOS Administrative Charge.

The Commission ordered such an investigation at Baltimore Gas & Electric (9221), Pepco, and Delmarva Power & Light, splitting the Pepco and Delmarva joint application into separate cases (9232 and 9226, respectively). The SOS Administrative Charge includes a rate of return component; an incremental cost component; an SOS uncollectibles component; and an administrative adjustment component.

Depending on utility and rate class, working capital costs are recovered through the return component and/or the incremental cost component.

The Commission agreed that as all four components represent a "finely crafted balance" established through settlement, "to permit the Companies to change the CWC revenue requirement, without review of the other components, may adversely alter this balance to the detriment of the ratepayers and significant benefit to the Companies."

The PSC declined to rule at this time on the Office of People's Counsel argument that BGE is precluded from recovering any portion of the residential SOS-related cash working capital costs due to legislation, but directed that this issue be addressed in the proceeding.

FERC Approves Extra-Tariff Mitigation on Three New York Generators

FERC accepted, with non-substantive modifications, the New York ISO's proposed extra-tariff mitigation on three rest-of-state suppliers, as the Commission said that bids from these generators designed to recover a portion of fixed costs as well as marginal costs are inconsistent with the results expected under a competitive market (ER09-1682).

As previously reported, the extra-tariff mitigation was applied to Saranac Power Partners, Seneca Power Partners, and Sterling Power Partners after NYISO said that their behavior was uncompetitive despite not violating any provisions contained in the tariff (Matters, 9/7/09).

The Commission agreed with NYISO that the Specified Generators have market power during periods when they are needed for reliability and are therefore pivotal. "Because the Specified Generators' bids exceeded their reference levels, i.e., their marginal costs, and because bid production guarantee payments were thereby increased by more than the allowed threshold," NYISO properly applied mitigation to the suppliers even though the suppliers did not trigger any mitigation measures as contained in the tariffs.

While the Specified Generators argued that marginal cost is an inappropriate reference for mitigation for high-cost and thus infrequently run generation, FERC denied this argument.

"[T]he ability to include and recover costs in excess of marginal cost, including fixed costs, in bids during periods when the generators are required to run for reliability is evidence of market power," FERC said.

"We disagree with Specified Generators' claim that bids should be allowed to ensure a recovery of fixed costs because this is their only opportunity to recover those fixed costs. Their desire for full cost recovery does not justify the exercise of market power. Generators needed mainly for reliability have other opportunities to receive compensation above their marginal costs. During periods of market-wide scarcity, given the nature of NYISO's markets, the market clearing price will typically exceed the marginal costs of virtually all generators by a substantial amount, thereby allowing all such generators to receive revenues that contribute to fixed cost recovery. In addition, generators can receive revenues to contribute to the recovery of their fixed, i.e., capacity, costs from the capacity market. While generators that are needed for reliability may have fixed cost recovery issues that need to be addressed, these generators remain subject to NYISO's market power mitigation measures, the application of which is the only issue in this proceeding," the

Commission said.

"[I]f NYISO's current market measures that allow for fixed cost recovery are inadequate, those issues may be addressed in other appropriate proceedings but they are not within the scope of the instant proceeding, which, rather, is focused on market power mitigation," FERC added.

The Specified Generators' argument that they were unaware when they would be called for reliability, and thus were unaware that they had the opportunity to exercise market power, was also rejected by FERC. "Competitive behavior only requires that a generator be able to determine and bid its marginal cost. The record reflects that Specified Generators expected to be committed for reliability needs, albeit infrequently, and consistently bid at levels above their marginal cost with that expectation in mind. That conduct constitutes an attempt to exercise market power if such circumstances arise even though they might not have known in advance which particular days or hours they would be committed to meet reliability needs," FERC said.

FERC stressed that the tariff's conduct thresholds, which were not triggered by the bidding behavior, are not "safe-harbor" bids. "Under NYISO's tariff, bidding below the conduct thresholds does not guarantee a generator that it will not be subject to mitigation," FERC said; it merely gives a generator assurance that market power mitigation will not apply to it absent a specific FERC order in response to a section 205 application by NYISO.

FERC also encouraged NYISO's efforts to develop a generally applicable version of the at bar mitigation measures that would apply to all market participants located outside of New York City, and directed NYISO to file a report on the progress of efforts to develop such measures within 90 days.

Reliant Offering Home Audits, Bill Reviews

Reliant Energy launched two new services -- an in-home energy audit and home electricity review -- to help customers better understand and manage how they use electricity.

Reliant's home energy audit provides customers with a personalized analysis of how their home is using - and possibly losing - energy. A Reliant energy consultant will spend an hour with customers in their homes, discussing their electricity use and pointing out where energy-saving improvements can be made. After the audit, Reliant's consultants create a detailed report that can help customers manage their energy use, providing energy saving-tips and energy efficiency recommendations. The home audit is free for Reliant Energy customers and will be scheduled on a first-come, first-served basis.

The home electricity review examines and compares information including electricity usage each month, cost, and plan type, giving customers tips and information to lower their energy bill. The review breaks down customers' monthly bill, showing how temperature, average daily use, and other factors affect the overall bill from month to month. It confidentially compares the customer's electricity use to other homes with similar characteristics and, based on an analysis of monthly usage, provides a list of energy and money-saving recommendations.

FERC Orders Examination of Exemption from NYISO ICAP Mitigation for Small Sellers

Exempting small sellers in the New York ICAP market from market power mitigation, which FERC previously accepted, may now, "create a loophole that could give an entity an incentive and ability to exercise market power by economically withholding capacity even if it controls less than 500 megawatts of UCAP," due how "control" is defined, FERC said in an order on rehearing regarding changes in the ICAP market (EL07-39).

FERC affirmed its rejection, on procedural grounds, of the NYISO's original proposal, first made in a compliance filing, to broaden the definition of control to include the retention of revenue or other financial benefits from UCAP.

However, recognizing the potential for the exercise of market power under the current definition which does not cover financial

arrangements such as swaps, FERC ordered NYISO to review the merits of the existing mitigation exemption, and to submit a filing within 30 days informing the Commission as to whether the exemption should remain. "If NYISO chooses to retain an exemption for small sellers, it must also explain how its mitigation proposal will address the market power issues it has raised without broadening the definition of control. If NYISO believes that changes to its mitigation exemption or other tariff changes are necessary to address the market power issues it has raised, without broadening the existing definition of control, NYISO may propose such changes under section 205 of the Federal Power Act," FERC said.

On rehearing, FERC clarified that the net Cost of New Entry is the cost of adding a LMS 100 peaking unit to the in-City market, less energy and ancillary services revenues (seasonally adjusted). NYISO had filed to set the offer floor as 75 percent of the price on the ICAP Demand Curve corresponding to 100 percent of the ICAP requirement, rather than net CONE. "Although that price at 100 percent of the ICAP requirement on the ICAP Demand Curve had been described as being equal to net CONE, that price actually is higher than net CONE as the Commission defined that term, i.e., the net cost of a LMS 100 peaking unit, because NYISO adjusted the ICAP Demand Curve upward to account for the likely surplus of capacity and an associated lower ICAP revenue attributable to that surplus," FERC said.

As a result, the offer floor included in NYISO's compliance filing exceeds the offer floor that the Commission approved in FERC's March 7, 2008 order, and FERC ordered NYISO to correct this error.

On rehearing, FERC also said that NYISO shall revise its tariff to provide equivalent penalties for withholding through a failure to offer uncommitted ICAP, and for withholding through uneconomic exports.

FERC held that Special Case Resources shall only be subject to mitigation for uneconomic new entry in their initial participation in the ICAP market, and not any subsequent participation. However, FERC said that mitigation of uneconomic Special Case Resources shall only terminate when ICAP offered by a new Special Case Resource at or above its offer floor has been accepted in the market for a total of 12 monthly auctions. The NYISO had proposed lifting such mitigation after 12 consecutive months regardless of whether the new Special Case Resource had cleared offers at or above its offer floor.

FERC Issues New Reporting Rules for Intrastate Pipelines

FERC issued final new rules requiring intrastate natural gas pipelines involved in interstate services to more frequently report their transportation and storage transaction information, stating that the expanded reporting requirements would increase price transparency in natural gas markets (RM09-2).

The new reporting requirements, effective April 1, 2011, apply to (1) intrastate natural gas pipelines providing interstate transportation service pursuant to section 311 of the Natural Gas Policy Act of 1978 and (2) Hinshaw pipelines providing interstate service subject to the Commission's Natural Gas Act section 1(c) jurisdiction pursuant to blanket certificates issued under § 284.224 of the Commission's regulations.

Under the new rules, these intrastate pipelines must report the following information on each transaction, aggregated by contract:

- The full legal name, and identification number, of the shipper receiving the service, including whether there is an affiliate relationship between the pipeline and the shipper;
- The type of service performed (i.e., firm or interruptible transportation, storage, or other service);
- The rate charged under each contract, specifying the rate schedule/name of service and docket where the rates were approved. The report should separately state each rate component set forth in the contract (i.e. reservation, usage, and any other charges);
- The primary receipt and delivery points covered by the contract, identified by the list of points that the pipeline has published with the Commission, which shall include the

industry common code for each point where one has already been established;

- The quantity of natural gas the shipper is entitled to transport, store, or deliver under each contract;
- The duration of the contract, specifying the beginning and ending month and year of the current agreement;
- Total volumes transported, stored, injected or withdrawn for the shipper; and
- Total revenues received for the shipper. The report should separately state revenues received under each rate component.

Such transactional information, "provides price transparency so shippers can make informed purchasing decisions, and also permits both shippers and the Commission to monitor actual transactions for evidence of possible abuse of market power or undue discrimination," FERC said.

Reports must also be filed quarterly, rather than annually or semi-annually as is the case now. Reports will be public and may not be filed with information redacted as privileged.

FERC Briefs:

FERC Proposes Raising WECC Price Caps in Non-CAISO Areas

FERC has instituted an investigation into the spot market energy price cap in regions of the Western Electricity Coordinating Council outside of the California ISO under section 206 of the Federal Power Act to remove any potential for market distortions created by the difference between the current and future bid caps in the CAISO energy market and the spot market price cap in the rest of the WECC (EL10-56). The bid cap in the CAISO market is $750/MWh and is scheduled to increase automatically to $1,000/MWh on April 1, 2011. Spot market prices in WECC outside of the CAISO are capped at $400/MWh. FERC's order proposes to increase the non-CAISO WECC cap to a $750/MWh soft cap for all spot market sales. In addition, the Commission proposes to further increase the price cap to a $1,000/MWh soft cap for all spot market sales in the WECC outside the CAISO on April 1, 2011.

FERC Accepts ISO-NE FCM Import Rules

FERC accepted ISO New England's tariff filing to require capacity importers to submit energy offers at competitive prices and to subject capacity importers to penalties for failing to comply with certain Forward Capacity Market participation requirements (ER10-902). The rules are largely similar to current provisions under the ICAP transition period. The FCM Competitive Import Requirements contain four key components: (1) the requirement to offer energy associated with capacity obligations at prices equal to or less than a threshold price; (2) the requirement to offer an energy quantity equal to the Capacity Supply Obligation; (3) the requirement to provide energy when requested by ISO-NE; and (4) the requirement to exempt certain existing import capacity resources associated with long-term contracts.

FERC Accepts CAISO Standard Capacity Product Compliance Filing

FERC accepted, with modification, the California ISO's compliance filing to implement a standard capacity product. The Commission rejected CAISO's proposal to use two formulas to assess non-availability charges, as FERC agreed with Dynegy that, under the two formula approach, a resource with a high minimum operating value would have greater levels of its capacity subject to the non-availability charge than a similarly situated resource with a lower minimum operating value for all scenarios where availability is less than the minimum operating value. FERC said that such a result is unjust, unreasonable, and unduly discriminatory, and directed CAISO to use a single formula across all levels of availability, including zero. FERC accepted CAISO's proposal to temporarily hold non-resource specific system imports to the same availability standard as in-area resources (ER09-1064). FERC also denied several rehearing requests regarding the standard capacity product.

Just Energy ... *from 1*

additions were seen across the U.S., with Texas and New York electricity being particularly strong, Just Energy said.

For the quarter ending March 31, 2010, net organic growth was also lower at 13,000 RCEs versus 15,000 a year ago. The overall customer base is currently 50% gas and 50% electricity.

For U.S. electricity, Just Energy grew its customer base 67%, mostly organically. U.S. electric gross margin increased 238%, as Just Energy reported that its U.S. electricity segment is seeing the largest impact of the growing consumption of its renewable products. Texas results benefited from high consumption supplied with low cost commodity, while New York profitability rose due to continued improvements in supply management.

Average gross margin per customer for U.S. electricity during the current year was $238/RCE, compared to $133/RCE from the prior comparable year.

For U.S. gas operations, seasonally adjusted gas margin increased 27% for fiscal 2010 to $81.3 million from $64.1 million a year ago. However, U.S. gas margins per customer were lower for three reasons: customers acquired from Universal were at lower margins than those of Just Energy; there was a 4% decline in the U.S. dollar; and warmer than normal weather in the northern U.S. required the sale of excess supply into a low price spot market.

Average U.S. gas gross margin after all balancing costs for the year ended March 31, 2010 was $212/RCE, down from $259/RCE in the prior year.

Canadian electric gross margin increased 38% from the prior year on customer growth and higher per customer margins resulting from steady increases in new customer contract margins in past periods, and the fact that the electricity customers acquired from Universal had generally higher margins than Just Energy's non-renewable customers. New customers under the higher-margin renewable product are making up a higher proportion of the overall electricity book as well

Average gross margin per Canadian electric customer for the year ended March 31, 2010 was $149/RCE compared to $131/RCE from the prior comparable year.

Canadian gas gross margin was down 8% due to a record warm winter compared to a colder than average winter in fiscal 2009. Excess gas supply was sold into very weak spot prices reducing margin from expected levels. Average gross margin per Canadian gas customer was $191/RCE for fiscal 2010, versus $210/RCE a year ago.

Margins for customer additions by market are shown in the chart on page 8 (the margins include margins from renewable sales). Annual margin on the 505,000 gross new customers added in the year was $208, and margin earned on 166,000 renewing customers was $168. Annual margin on customers lost during the year was $179.

"Just Energy's major marketing challenge remains in the Canadian markets where the disparity between spot prices and the five-year prices continues to impact sales," which has hurt both new customer additions and renewals, Just Energy said. The recent upward movement in energy prices has begun to slow attrition in some of these markets.

Of all customers who contracted with Just Energy in the year, 39% took renewable content for some or all of their energy needs. On average, these customers elected to purchase

Just Energy Gross Margin – Seasonally adjusted

For the years ended March 31
(thousands of Canadian dollars)

Gross Margin	2010 Canada	2010 United States	2010 Total	2009 Canada	2009 United States	2009 Total
Gas	**$124,105**	**$81,520**	**$205,625**	$154,171	$64,118	$218,289
Adjustments	**10,804**	**(255)**	**10,549**	(7,623)	-	(7,623)
	$134,909	**$81,265**	**$216,174**	$146,548	$64,118	$210,666
Electricity	**107,042**	**91,107**	**198,149**	77,549	26,978	104,527
Total	**$241,951**	**$172,372**	**$414,323**	$224,097	$91,096	$315,193
Increase	**8%**	**89%**	**31%**			

Just Energy Long-Term Customers

	April 1, 2009	Additions	Acquired	Attrition	Failed to renew	March 31, 2010	%Increase (Decrease)
Natural gas							
Canada	743,000	46,000	93,000	(81,000)	(67,000)	734,000	(1)%
United States	235,000	171,000	120,000	(110,000)	(8,000)	408,000	74%
Total gas	978,000	217,000	213,000	(191,000)	(75,000)	1,142,000	17%
Electricity							
Canada	578,000	72,000	215,000	(94,000)	(11,000)	760,000	31%
United States	234,000	216,000	2,000	(52,000)	(9,000)	391,000	67%
Total electricity	812,000	288,000	217,000	(146,000)	(20,000)	1,151,000	42%
Combined	**1,790,000**	**505,000**	**430,000**	**(337,000)**	**(95,000)**	**2,293,000**	**28%**

Annual gross margin per customer

	Fiscal 2010	Fiscal 2010 Target
Customers added in the year		
Canada - gas	$175	$170
Canada - electricity	$136	$143
U.S. - gas	$208	$170
U.S. – electricity	$229	$143
Customers lost in the year		
Canada - gas	$191	
Canada – electricity	$120	
U.S. - gas	$247	
U.S. – electricity	$120	

Aggregation costs per customer added

	Fiscal 2010	Fiscal 2009
Natural gas		
Canada	**$215/RCE**	
United States	**$174/RCE**	
Total gas	**$182/RCE**	$194/RCE
Electricity		
Canada	**$188/RCE**	
United States	**$161/RCE**	
Total electricity	**$168/RCE**	$156/RCE

81% of their consumption as green supply.

Overall, green supply now makes up 2% of Just Energy's overall gas portfolio, up from 1% a year ago. Renewable content makes up 5% of the electricity portfolio, up from 2% from the same period last year. "For this reason, 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.

The trailing 12-month electricity attrition in the United States was 16%, below management's target of 20%. U.S. gas attrition was 30%, above management's annual target of 20%, due to aggressive termination or forced return to default services policies utilized by Just Energy to limit bad debt in the recession.

In Canada, the trailing 12-month electricity attrition rate was 13%, above management's target of 10%, due to the "clean-up" of the acquired Universal book. Canadian gas attrition was 10% for the year, consistent with management's target.

The customer renewal rate for Texas electric customers (the only U.S. electric customers up for renewal) was 79% for the trailing 12 months, significantly better than the target rate of 60%. U.S. gas renewals (currently limited to Illinois) were 67%, above the target of 50%

For Canadian electricity, the renewal rate was 73% versus the target of 65%. For Canadian gas, the renewal rate was 61%, lagging the 2010 target of 70%, due to the level of market prices versus the default rate.

Marketing expenses, including commissions, grew 41% to $95.8 million from $68.1 million in fiscal 2009, reflecting customer growth and a 52% increase in active independent sales contractors. Marketing expenses to maintain gross margin increased by 50% to $62.8 million in fiscal 2010, resulting from higher customer attrition driven by a continued weak U.S. economy and a greater number of renewals and associated costs versus last year. Marketing expenses to add new gross margin in fiscal 2010 totaled $33.0 million, an increase of 26% from $26.2 million in the prior year.

Bad debt expense for fiscal 2010 was $17.9 million, up 29% from $13.9 million in fiscal 2009. The bad debt expense increase was mainly due to the 19% increase in total revenues where Just Energy assumes the risk for accounts

receivable collections and higher percentage losses in Texas. For the year ended March 31, 2010, the bad debt expense of $17.9 million represents approximately 2.8% of $649.3 million in revenues in those markets. In fiscal 2009, the total bad debt expense was 2.6% of $543.5 million in revenues.

After the close of the fiscal year, Just Energy said that the acquisition of Hudson Energy Services makes its U.S. customer book larger than its Canadian book, and will also moderate the seasonality of its operations due to Hudson's commercial account focus.

Duquesne ... from 1

The portfolio will also allow Duquesne Light to contract directly with generators, "cutting out the middleman" and "eliminating third-party mark-ups that are inherent in purchases of power from aggregators."

Furthermore, an active portfolio would also permit EDCs to incorporate long-term contracts with new baseload capacity, which would provide the requisite long-term commitment needed by developers to obtain financing, Christy said. "At some point, we are going to have to acknowledge the fact that neither the short-term price signals in PJM's capacity market, nor the short-term nature of DSPs [default service plans] that we are approving for retail generation supply, are providing the long-term commitments for new baseload generation in Pennsylvania that will be needed in the future," Christy said.

Commissioner Wayne Gardner dissented, calling the pricing structure under the residential managed portfolio inconsistent with the least cost standard under Act 129.

"While Duquesne's goal to provide its customers with price stability is noble, I do not believe it is rational. Duquesne's proposal to assume the risk of generation increases and decreases effectively shields customers from the true cost of electricity generation. Also, the $78.60 per MWH price was an estimate created when this case was filed in October 2009, and was based on forward market conditions available at that time," Gardner said.

"Additionally, the 'least cost over time' standard for default service generation procurement mandated by Act 129 means, least cost for customers, not least cost for the utility. If the market fluctuates down from $78.60 per MWH when Duquesne enters into a supply contract for its customers, those customers will not be offered supply that was procured at the 'least cost,'" Gardner added.

"Viewing this issue from the other end of the spectrum, if the market prices rise drastically above $78.60 per MWH at the time Duquesne enters into a supply contract, Duquesne has provided no plan outlining how it will pay for the supply costs without jeopardizing its fiscal health or compromising operations," Gardner noted.

Chairman James Cawley also expressed concerns and, "urge[d] other electric distribution companies to avoid residential default service programs similar to this one."

While "begrudgingly acquiesc[ing]" to the residential portfolio, due to legislative time constraints imposed on a PUC order, Cawley said that, "the failure to pass on the resultant costs dollar-for-dollar -- and instead the retention by [Duquesne Light] of any profits from the revenues collected from the residential default service fixed price offered to residential customers under the Settlement relative to actual purchase costs -- is of concern. Such an approach eliminates much of the transparency and price discovery that exist under more traditional default service programs."

"I will closely monitor the performance of this residential default service program relative to other competitive bidding processes that pass on procurement costs dollar-for-dollar. Given this no-bid full requirements contract that [Duquesne Light] is essentially providing to itself, we will likely be relying on competitive market Electric Generation Suppliers (EGSs) to ensure that consumers have access to least cost supply," Cawley added.

Currently, only Dominion Retail and Energy Plus Holdings LLC (which just entered the market in April) offer residential supply at Duquesne Light, and only to Residential RS customers (there no offers for heating (RH) or heat pump (RA) customers).

Gardner also criticized the lack of discussion in the record regarding whether ancillary services, which will continue to be provided by affiliate Duquesne Power for all but the large

customer class, could have been procured competitively, from a non-affiliate, for a better cost.

As noted in our February story, the settlement provides that Duquesne is to develop a referral-type program which would inform customers of supplier offers via semi-annual bill inserts. Cawley urged the parties to develop market referral programs, "to accelerate customer shopping that can provide lower prices to consumers."

Customer Lists

The PUC adopted the motion of Commissioner Robert Powelson to issue a tentative order modifying the settlement's provision of customer lists to suppliers, in order to be consistent with the precedent at PPL.

Under the settlement, Duquesne Light is to provide suppliers with monthly updates to its customer list on its supplier website, subject to the Commission's customer privacy and protection rules. The settlement further provides for the right of small and medium commercial and industrial customers to opt out of the release of customer information.

Previously, the Commission ordered that at PPL, customers may restrict the sharing of their historical billing data or the entirety of their customer information, while telephone numbers may not be shared.

"In the interest of ensuring effective competition statewide, improving customer access to competitive offers, and consistent with the Commission's orders regarding consumer privacy and customer lists, we wish to explore whether Duquesne Light Company should be required to provide a customer list as [done at PPL]. Should such a requirement be adopted, Duquesne should permit customers to opt out of providing historical billing data and telephone numbers, consistent with our customer privacy and protection rules. To this end, I move that a Tentative Order on this issue be issued for comment on whether the requirements set forth above should be adopted with respect to Duquesne, with comments to be filed so as to allow final action at the July 15, 2010 Public Meeting. I request that parties address in their Comments whether residential customers should be able to restrict the release of their service, as opposed to billing, addresses for privacy reasons," Powelson said.