Energy Choice Matters

June 11, 2010

Md. PSC Approves Electric POR Compliance Plans at BGE, Allegheny, Delmarva

The Maryland PSC authorized Baltimore Gas & Electric, Delmarva Power & Light, and Allegheny Power to implement electric Purchase of Receivables programs with several modifications from the utilities' proposals. The Commission directed the utilities to file clean tariff revisions to implement the Commission's POR orders by July 1, with an effective date for the POR tariff sheets of July 15.

Pepco, who had received approval to delay its updated POR compliance filing until the Delmarva order was issued, was directed to submit an updated compliance filing by July 1.

The approved discount rates are as follows:

Baltimore Gas & Electric:

Service Type	Uncollectibles (Net Write-offs)	CWC Adjustment	Programming Costs	**Total POR Discount Rate**
Residential	0.3821%	0.0977%	0.1451%	**0.6249%**
Type I	0.3463%	-0.0066%	0.0277%	**0.3674%**
Type II	0.1916%	-0.0066%	0.0323%	**0.2173%**
Hourly	0.0483%	-0.0066%	0.0090%	**0.0507%**

Delmarva Power & Light

Service Type	Uncollectibles (Net Write-offs)	Programming Costs	**Total POR Discount Rate**
Residential	0.6145%	1.5734%	**2.1879%**
Type I	0.5092%	0.1204%	**0.6295%**
Type II	0.0316%	0.0049%	**0.0366%**
Hourly	0.0045%	0.0004%	**0.0048%**

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IDT Energy Earnings Lower on Customer Churn, Weather

IDT Energy reported lower income from operations for the quarter ending April 30, 2010 of $9.9 million, versus $12.8 million a year ago, on customer churn, lower usage per customer, and warmer weather versus the year-ago period.

Gross margin for the quarter was lower at 29.1% versus 29.6% a year ago. Compared with the quarter ending January 31, 2010, however, gross margin was sequentially higher, versus 26.9%. Although, as it has done for the past year, IDT said that such gross margin levels may not be sustainable in the long-term, IDT said that it expects to continue to earn above the typical norm of 12%-15% gross margin if energy prices remain stable or decrease further. Acquisition costs from new efforts in Pennsylvania and New Jersey will put pressure on gross margin, however.

As of April 30, 2010, IDT Energy's customer base consisted of approximately 364,000 meters (205,000 electric and 159,000 natural gas), a decrease versus both January 31, 2010 (366,000: 208,000 electric / 158,000 gas) and April 30, 2009 (414,000: 236,000 electric / 178,000 gas). As

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ICC Staff Says Flat ComEd POR Billing Fee Will Discourage Residential Competition

Commonwealth Edison's flat 50¢ per bill surcharge to recover implementation costs of Purchase of Receivables (in addition to an uncollectible percentage discount) will discourage competitive suppliers from serving residential customers and stymie the development of the small volume market, Illinois Commerce Commission Staff and Dominion Retail said in separate testimony.

As only reported in *Matters*, ComEd intends to recover all costs of POR from competitive suppliers. Though initially some costs would be charged directly to distribution customers, these charges would later be refunded to customers as more suppliers use POR and pay the fees levied on suppliers. To recover POR uncollectibles, ComEd would apply a class-specific volumetric discount rate, but for the significant implementation costs of POR and utility consolidated billing, ComEd would charge a 50¢ fee per bill issued on behalf of a supplier (see Matters, 1 /26/10).

However, Staff noted that the use of a per-bill fee, rather than a volumetric charge, to recover implementation costs would essentially raise the effective discount rate for low usage customers, as a larger percent of their bill would go towards paying for POR and utility consolidated billing. "For example, the fixed per bill charge of fifty cents represents a larger portion of $40 worth of purchased receivables than that of $400 worth of receivables," Staff noted.

"A fixed per bill charge that results in a relatively high discount rate for customers who are consuming relatively small amounts of electricity each month has the potential to discourage [suppliers] from signing up those customers," Staff noted. "All else being equal, it is not hard to imagine that a PORCB participating supplier will want to focus on signing up customers that leave the supplier with the highest percentage of net receivables (the amount of the receivables sold to the electric utility minus the PORCB discount rate). In Staff's view, such an outcome would not be desirable, as it may exclude many residential customers from receiving competitive supply offers," Staff testified.

Staff recommended that the Commission should, "do its part to ensure that the PORCB participation by the [suppliers] be as high as possible," since higher participation will increase the likelihood that the portion of POR costs initially funded by customers will be fully refunded to customers.

Specifically, Staff recommended that, for implementation costs, the ICC should set the discount rate at the same level adopted for Ameren: 0.68%. When adding ComEd's uncollectible rates to Staff's administrative component, the total ComEd discount rate would be 2.92% for residential customers and 1.454% for commercial customers.

Though the resulting residential discount rate is significantly higher than the 1.74% rate approved at Ameren (in which the residential and commercial classes are combined into one discount rate), Staff said that maintaining the proposed 50¢ per bill fee would result in an even higher residential discount rate for all residential customers with monthly receivables below $73.50. Below that amount, the fixed 50¢ per bill charge equals a percentage charge that is higher than the 0.68% charge proposed by Staff.

Staff further noted that for a typical residential customer using 700 kWh per month, with a hypothetical supply charge of 9¢/kWh, the resulting average receivables would be $63, or below the $73.50 threshold under which the flat fee increases the discount rate versus the Staff proposal (Staff said that the simple average of residential usage at ComEd is 669 kWh per month). Using the 50¢ per bill charge, the effective POR discount rate would be 3.03% for Staff's hypothetical customer, versus the Staff volumetric proposal of 2.92%.

Dominion Retail agreed that the flat 50¢ fee will hinder competitive offerings to mass market customers, calling the fee, "discriminatory toward smaller customers," since such customers would be responsible for the same amount of implementation costs as large users of electricity.

Dominion Retail further argued that all POR implementation costs should be recovered in distribution rates, calculating that such costs would add about 7¢ per month to customers' bills over a five-year period. Dominion Retail stressed that the majority of the originally calculated $15.8 million in implementation costs is for utility consolidated billing ($12.6 million), while only a small portion ($3.2 million) is related to POR itself. Staff, however, supported ComEd's eventual allocation of all costs to competitive suppliers.

Both Dominion Retail and Staff noted that ComEd's calculated implementation costs far exceed the $2.1 million in implementation costs at Ameren, and questioned the difference. Dominion Retail further observed that ComEd merged with PECO over a decade ago, and that PECO offers utility consolidated billing with POR. "[B]y now one would think that the synergies that were touted as rationale to support a merger between two large electric distribution utilities would begin to be realized in the billing systems," Dominion Retail said.

Staff reported that, in a data response filed immediately before the date its testimony was due, ComEd significantly raised its total forecast for implementation costs to $22.1 million ($4.5 million POR, $17.6 million consolidated billing). Staff said that as the data response was filed right before its testimony was to be filed, it has not fully reviewed the information.

Staff was further concerned with ComEd's admission that, as of May 7, it has not determined the amounts of Development and Implementation Costs (DICs) and Billing System Modification and Implementation Costs (BSMICs) incurred to date.

Dominion Retail requested that ComEd be required use revenues from late fees to offset the uncollectibles component, stating that it is unclear if ComEd's pro forma tariff provides for such an offset.

As previously reported, ComEd's proposed tariffs include several rescission-related provisions, including an extended timeline and the ability for customers <100 kW to rescind by contacting ComEd and not their supplier. Staff, as well as the Illinois Competitive Energy Association, opposed the inclusion of any rescission-related provisions, since the length of the rescission period is currently pending before the Commission in the Part 412 rulemaking.

Similar to Ameren, Staff recommended that bill insert parity be required as part of POR. That is, since suppliers using supplier consolidated billing must include utility bill inserts required by law, utilities offering utility consolidated billing should be required to include the bill inserts which suppliers are required to provide to customers by law.

Staff opposed ComEd's proposed rate of return for POR and consolidated billing assets, since the ComEd proposal equals the cost of capital for electric delivery services and implies that the risk inherent in the recovery of POR assets equals the risk of the company's electric delivery service assets. Staff argued that the POR assets warrant a lower rate of return than electric delivery services. Staff recommended applying a 6.61% rate of return on common equity to POR assets, which results in an overall rate of return of 6.71%.

Aside from its opposition to the tariff's rescission language, the Illinois Competitive Energy Association supported ComEd's POR filing as consistent with a memorandum of understanding among ComEd, ICEA, and the Retail Energy Supply Association which, "represents a reasonable and equitable compromise that should help bring the benefits of customer choice and competition to residential and small commercial retail customers in ComEd's service territory" (see Matters, 4/20/10).

Direct Energy to Acquire Clockwork Home Services, Grow Ability to Integrate Services, Supply

Direct Energy has reached an agreement to acquire the assets and business of Clockwork Home Services, Inc. for $183 million, to create the what Direct said is North America's largest home services company, offering heating & cooling, plumbing, and electrical services.

The combined firm will serve over 3 million households annually. Together, the new organization will have overall network revenues, including independent franchise and affinity clients, of almost $4 billion.

"The addition of Clockwork Home Services to our Services business helps deliver on Direct Energy's growth strategy of being North America's leading integrated energy and services company," said Chris Weston, CEO of

Direct Energy. "This acquisition will also allow us to increase the proportion of households that Direct Energy serves where we can offer both services and energy supply from 30% to 55%, with the opportunity to increase our integrated offerings through new Clockwork franchises," Weston added.

The combined organization will operate in almost every U.S. state and Canadian province providing repair and maintenance services to customers' heating and cooling systems as well as energy efficiency related services to both homes and businesses. The new organization will also focus on obtaining state, provincial, and federal energy efficiency funding that is widely available to help make North American homes more energy efficient.

Clockwork's companies include Mister Sparky franchising, Benjamin Franklin Plumbing franchising, and One Hour Heating & Air Conditioning franchising.

The transaction, which remains subject to certain customary conditions including approval by regulators in the United States and Clockwork's shareholders, is expected to be completed in the early third quarter of 2010.

PUCO Allows Supplier Interventions in Duke POR Adjustment Docket, Sets Schedule

The Public Utilities Commission of Ohio has set a procedural schedule for, and will allow competitive suppliers to intervene in, Duke Energy Ohio's application to raise its electric POR discount rate (09-1026-EL-ATA).

As only reported in Matters, Duke Energy Ohio is seeking to increase the electric POR discount rate to 2.02% from 1.87% (Matters, 2/2/10).

An attorney examiner ruled that interested parties shall file motions to intervene by June 24, 2010. The attorney examiner's entry does not address whether a hearing will be required, or whether Duke's proposal appears to be unjust or unreasonable.

In light of the fact that there is no indication in the docket that Duke Energy Ohio served a copy of its application upon all retail suppliers who would be affected by the proposed change, the attorney examiner directed Duke Energy Ohio to serve a copy of its application on all retail providers in Duke's service territory.

Furthermore, in order to facilitate settlement discussions between the parties, Duke Energy Ohio shall provide to Direct Energy, Dominion Retail, Integrys Energy Services (all of whom have already sought intervention), and any other entity that files for intervention, detailed information that explains the rationale and justification for its proposed POR formula and the changes proposed by its application. Such information is to be provided by June 28.

Briefly:

HES Energy Agrees Not to Use Names Similar to Hess Trademarks

Hess Corporation said that pursuant to a letter agreement, broker HES Energy LLC will cease using the names HES, HES Energy, HES Energy Services, or any variant of a Hess Corporation trademark. Hess had protested HES Energy LLC's Pennsylvania broker application due to the similar name, but has now withdrawn the protest (Only in Matters, 5/24/10). HES Energy LLC has not yet filed with the PUC what name it will seek to do business under, though a likely candidate is Hospital Energy Services.

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The Commission declined to require BGE or Delmarva to purchase outstanding receivables when POR commences, stating that the Commission, "will not place the burden of these uncollectibles on the Company or its other ratepayers." However, BGE and Delmarva must continue to bill any past due supplier balances outstanding as of the POR program effective date for a period of 90 days. Allegheny has agreed to purchase the current billed accounts receivables balance on each consolidated bill account at the POR discount rate accepted by the Commission.

The PSC struck from BGE's tariff the proposed "all in, all out" requirement to be placed on suppliers when electing a billing option for a rate class. Delmarva and Allegheny

Allegheny Power:

Service Type	Uncollectible Costs	Programming Costs	**Total POR Discount Rate**
Residential	0.3244%	0.8062%	**1.1306%**
Type I	0.0000%	0.1090%	**0.1090%**
Type II	0.0000%	0.0372%	**0.0372%**
Hourly	0.0000%	0.0127%	**0.0127%**

did not include such language in their tariffs.

At BGE, the PSC adopted the Staff's proposal for a cash working capital (CWC) adjustment in the POR discount rate, but, for the non-residential classes, reduced the offset amount related to CWC to -0.0066% from Staff's proposed -0.0444%. The Commission said that BGE has the opportunity to track this component, and if the actual data indicates that further revision is necessary, BGE may provide the updated data and ask the Commission to consider revising the CWC component of the POR discount rate.

At BGE and Delmarva, the PSC found that each utility had failed to adequately support the need for the originally requested risk factor as a component of the discount rate, and removed the risk factor from each rate. Allegheny did not propose a risk factor in its updated filing.

At BGE and Allegheny, the uncollectible costs reflect Staff's recommendations, including the use of revenues from late fees to partially offset those costs. The Commission said that it expects that for future years, in connection with the annual recalculation and reconciliation of POR discount rates, each utility will calculate the uncollectible cost component based upon its actual POR uncollectibles experience, and that it will provide documentation and worksheets sufficient to support its calculations.

The Commission directed all three utilities to track any late fees that are assessed and collected on consolidated bills and to disclose such data when they file their next annual POR discount rates for consideration by the Commission.

At Delmarva, the final discount rate rejects Delmarva's proposed return on the unamortized balance of its programming costs. Additionally, the programming costs will be recovered over a five-year period as suggested by Staff.

At Allegheny, the Commission agreed with Staff that Allegheny has not provided support for the proposed administrative cost component of its POR discount rates, nor was the Commission persuaded that Allegheny will incur any such incremental administrative costs. Unless and until Allegheny can document and describe in detail any incremental administrative costs associated with the implementation of POR, the Commission concluded that this cost component is not appropriate in calculating the Allegheny POR discount rates.

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previously reported, in the summer of 2009 IDT restructured its sales efforts to attract higher quality customers, accounting for the year-over-year decrease in customer count.

Due to the higher-quality customers, customer churn during the quarter ending April 30, 2010 averaged 3.5%, versus 4.5% a year ago. However, churn was higher compared with the quarter ending January 31, 2010, where churn was 2.6%

Looking ahead, IDT anticipates that customer acquisitions in all territories will substantially keep pace with customer churn resulting in a relatively stable customer count. As previously reported, IDT has begun "testing" the market for expansion in New Jersey and Pennsylvania, and said that it enrolled a small number of customers in these new markets during the quarter. These customers will begin producing revenue in the next quarter, but will not provide a meaningful impact this fiscal year (which ends July 31, 2010 for IDT).

Revenue for the quarter was $53.8 million, versus $66.7 million a year ago. SG&A expense for the quarter was $5.7 million, down from $6.9 million a year ago, due to decreases in customer acquisition costs and Purchase of Receivables fees.