Energy Choice Matters

August 2, 2010

# DPL Energy Resources Captures 99% of Migrating Load at Dayton Power & Light

DPL Energy Resources has retained 99.1% of migrated retail load at its affiliate Dayton Power & Light, parent DPL Inc. reported in announcing earnings Friday.

For the year, DPL Energy Resources expects to retain 95.9% of migrated load.

For the six months ended June 30, 1,775 GWh of retail load at Dayton Power & Light was served competitively, or 25.5% of total retail load. DPL Energy Resources served 1,759 GWh of competitive load at Dayton Power & Light through June 30, or 25.3% of total retail load. Only 16 GWh of retail load at Dayton Power & Light was served by a non-affiliate provider through June 30.

For the second quarter, DPL Energy Resources served 1,033 GWh of the total 1,046 GWh of migrated sales.

For the year, Dayton Power & Light expects 35% of sales to be served competitively. DPL Energy Resources expects to serve 33.6% of Dayton Power & Light total sales for the year.

The impact of migration at Dayton Power & Light on its parent's second quarter gross margin was approximately negative $3 million. For the calendar year 2010, DPL Inc. estimates that the impact will be approximately negative $15 million.

During the six months ended June 30, 2010, three additional unaffiliated retail suppliers registered in Dayton Power & Light's service territory, bringing the total number of competitive providers in DP&L's service territory to ten.

As in prior quarters, the expansion of DPL Energy Resources to service areas outside of its affiliated territory did not have a material impact on its parent's results of operations, financial position, or cash flows.

Net Income at DPL Inc. was $61.4 million for the second quarter of 2010, up from $42.1 million a year ago.

# ERCOT IMM Again Finds Bidder Behavior Unreliable in Triggering Scarcity Prices

The ERCOT balancing market saw an offer that exceeded $1,000 per MWh in only 33 hours (0.38 percent) during 2009, Independent Market Monitor Potomac Economics found in the 2009 State of the Market report, which raised similar concerns regarding the triggering of scarcity pricing to those raised in prior reports.

There were only 42 shortage intervals in 2009, significantly fewer than the 108 and 103 shortage intervals that occurred in 2007 and 2008, respectively. The reduction can be primarily attributed to the implementation of Protocol Revision Request 776, which allows more timely access to non-spinning reserves through the balancing energy market, thereby reducing the probability of transitional shortages of the core operating reserves. During the 42 shortage intervals, prices ranged from $168 per MWh to $529 per MWh, with an average price of $364 per MWh.

"These results indicate that relying exclusively upon the submission of high-priced offers by market participants was generally not a reliable means of producing efficient scarcity prices during

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## PUCT Commissioners Agree on Deferred Payment Plan, Disconnect Rule

PUCT Commissioners are prepared to adopt a final rule regarding customer deferred payment plans and disconnections after making final cuts regarding policy issues at Friday's open meeting (36131).

The only material change made to the most recent Staff draft is that Commissioners agreed to modify the pricing which REPs would be required to offer customers subject to a switch hold whose fixed price contracts expire during the switch hold and who do not affirmatively elect a pricing option (Matters, 7/26/10).

Staff had proposed requiring REPs to serve these customers under: (1) the lowest priced month-to-month product currently offered by the REP to new applicants, or (2) at the price charged under the existing term contract that is expiring (on a month-to-month basis), or, if the REP does not offer month-to-month products to new applicants, (3) the price equivalent to the lowest price of the shortest term fixed product currently offered by the REP to new applicants.

Commissioner Kenneth Anderson raised concerns with the availability of Option 2, citing cases where market prices have declined significantly versus the price under the current fixed-price contract. In such a scenario, Staff's mechanism would give the REP the ability to elect to continue serving the customer at the much-higher fixed price rate, rather than on a more market-reflective price.

Commissioners agreed that due to this concern, Option 2 should be stricken from Staff's language. Accordingly, REPs would be required to serve these customers on either the lowest priced month-to-month product currently offered by the REP to new applicants, or, if the REP does not offer month-to-month products to new applicants, the price equivalent to the lowest price of the shortest term fixed product currently offered by the REP to new applicants.

A final order was not before the Commission Friday, as a formal proposal for adoption with preamble must still be written.

## Pocket Power to Formally Launch in ERCOT on August 3

Pocket Power is to formally announce Tuesday its entry into the ERCOT retail market, offering a prepaid variable and fixed price product to residential customers.

An affiliate of pay-as-you-go wireless provider Pocket Communications, Pocket Power's market entry and prepaid strategy was first reported in *Matters* (5/19/10).

At AEP Texas Central, where Pocket Power will initially market using its base of Pocket Wireless stores, Pocket's variable prepaid product is priced at 18.9¢/kWh, reflecting an energy charge of 17.9¢/kWh, a base charge of $6.95, and the AEP advanced metering fee of $3.15.

Pocket's six-month fixed prepaid product is priced at 17.9¢/kWh, reflecting an energy charge of 16.9¢ and the same flat fees listed above. The fixed product includes a $100 early termination fee.

The prepaid products do not use a customer-premise prepayment device or system.

As of 2009, Pocket Wireless had over 300,000 wireless subscribers in South Texas that purchase prepaid nationwide wireless service. Pocket Power will leverage the Pocket Wireless dealer relationships at 55 Pocket Wireless retail locations in Corpus Christi, Laredo, Brownsville, and other South Texas cities, offering incentives to combine wireless and electric service.

## Migration Impact Larger Than Forecast at PSEG

Customer migration away from Basic Generation Service negatively impacted PSEG Power's earnings by about $5.1 million in the second quarter of 2010, parent Public Service Enterprise Group said Friday.

Second quarter operating earnings at PSEG Power were down at $239 million versus $253 million a year ago. Net income for the quarter was $204 million versus $246 million a year ago.

Although the level of customer migration was in PSEG's forecasted range, at 22% to 24%, market energy prices are lower than expected, meaning sales of excess power due to reduced BGS volumes are receiving lower revenue than anticipated.

In the first quarter, PSEG expected no incremental negative impacts of migration versus 2009 where migration reduced earnings by about $40 million. Now, PSEG expects that 2010 may see an incremental loss of $10-20 million above the 2009 losses from migration due to the reduced market prices.

PSEG Power also recorded a $10 million negative impact from lower volumes on non-BGS full requirements contracts, again due to migration, as PSEG marked the value of such contracts to market.

PSEG Power recorded gross margin of $51/MWh in the second quarter, down from $63/MWh a year ago.

PSEG Power reported that its bid for 89 MW of new peaking capacity at its Kearny project was accepted in the most recent Reliability Pricing Model auction, for an in-service date of June 2013.

PSEG Energy Holdings, which includes PSEG's Texas assets, reported net income of $12 million for the quarter, down from $21 million a year ago. Operating earnings were identical. Energy Holdings' lower earnings reflect lower gains on lease sales and lower project earnings.

## Public Power & Utility Enters Mass Market Partnership with Lehigh Valley Chamber

Public Power & Utility (trading as Public Power in Pennsylvania) has entered into a partnership with the Greater Lehigh Valley Chamber of Commerce to offer electric supply to residential and small business customers in the PPL territory. Customers do not have to be Chamber members to receive service under the program.

The partnership was facilitated by America Approved Energy Services Direct, LLC.

The 12-month product offered under the program includes an introductory rate of 9.2¢/kWh for two months and a rate of 9.7¢ for the remaining 10 months. The product includes an early termination fee of $75.

The program includes a rewards program offering customers up to $1,700 in savings at various Lehigh Valley Chamber businesses.

The Lehigh Valley Chamber also has a partnership with Constellation NewEnergy to supply large customers with electricity.

## Navigant Finds Vast Majority of Texas Advanced Meters Are Accurate

Navigant identified just under 11,000 advanced meters which were not operating within specific parameters in its evaluation of the smart meter deployments at Oncor, CenterPoint, and AEP Texas. Aside from several independent accuracy tests, Navigant reviewed historical test results for accuracy on close to 1.1 million advanced meters during a four-month investigation.

Additionally, several thousand more customers have experienced inaccurate bills related to human, non-metering errors during the deployment, such as inaccurate final manual meter reads, or the failure to perform manual demand resets.

In Navigant's meter accuracy tests, 5,625 of the 5,627 advanced meters (or 99.96%) were determined to be accurate by ANSI standards. Additional non-compliant meters were detected by studying the root causes for the two failed meters (both at Oncor) and evaluating event codes for similar issues, and through the utilities' validation process.

The vast majority (10,656) of meter-related errors were at CenterPoint, where a certain package combination of hardware, software and firmware for the Itron meters resulted in a Pulse Overflow event that recorded higher-than-actual kWh usage. Only about 3,500 customers were actually billed for the higher usage. This error was detected by CenterPoint in its validation process prior to the Navigant study.

At Oncor, poor quality workmanship in the manual soldering of a component to the advanced meter's circuit board for early generation Landis+Gyr meters may cause the meter to run fast. Approximately 10% of Oncor's installed advanced meters were of a design (Rev D) that required some manual soldering of components. Of these, approximately 439 Rev D advanced meters (less than 0.4% of total Rev

D advanced meters in service) were identified as exhibiting a certain event code denoting a potential issue. All but one of these meters have already been removed from service, with 74 meters thus far determined to be outside of the Commission's acceptable range of performance. Oncor is in the process of remediating the potential over-billing of these customers.

Navigant also tested whether advanced meters were accurately and consistently communicating electric usage from the meter to the electric utility for use in customer billing. With the exception of one unexplained variance that is still being evaluated, Navigant noted no differences between the information measured and stored on the advanced meter and/or in the initial data storage system through the information ultimately used in the customer billing process.

Navigant's statistical analysis did not identify any statistically significant difference in electricity usage on average between customers with advanced meters and customers with electromechanical meters that can be attributed to the installation and use of advanced meters.

Navigant attributed customer complaints regarding usage under advanced meters mostly to colder weather, while noting that for some 2,000 customers, erroneous final manual meter reads caused inaccurate bills.

Navigant's report was filed in PUCT Project 38053.

## Calif. PUC to Begin Review of Advanced Meter Data Access

The California PUC scheduled a prehearing conference for August 20 concerning customer privacy and access to advanced metering data (R. 08-12-009). Stakeholders were directed to address the following:

- Proposals that will provide customers with their usage and pricing data in a timely matter
- The regulatory policies that the Commission should adopt to protect the privacy of California power customers and to protect the security of the grid
- The regulatory policies that the Commission should adopt to permit authorized third parties with access to this data, and the conditions that they must meet for continued access

Prehearing conference statements are due August 13.

## Mass. AG Joins Cape Wind Settlement

The Massachusetts Attorney General has entered into a settlement with National Grid, Cape Wind Associates, and the Department of Energy Resources to support the PPA between Cape Wind and National Grid (10-54).

Under the non-unanimous stipulation, the bundled price under the PPA would be reduced to $187/MWh in 2013 dollars, with a 3.5% escalator over the 15-year term of the PPA.

In the event that the size of the project is reduced from a 130-turbine project on a per-turbine basis, the starting price would be adjusted linearly up to $193/MWh for a 110-turbine project, with linear price adjustments between each interval of project size on a per-turbine basis.

In pre-filed testimony filed Friday, TransCanada Power Marketing called the ratemaking treatment of the Cape Wind contract inequitable to competitive supply customers because National Grid proposes to use the energy and RECs from the Cape Wind facility to serve Basic Service customers. However, as previously reported, the amount of above-market contract costs would be spread to all of the National Grid's distribution customers.

"Thus, Basic Service customers will receive Cape Wind's energy and REC products, while non-supply customers will pay a portion of the expected large above-market contract costs and will receive nothing," TransCanada noted.

TransCanada called such rate treatment inconsistent with statute which calls for distribution companies to either (i) elect to use any energy purchased under such contracts for resale to their customers, and elect to retain RECs for the purpose of meeting the applicable annual RPS requirements; or (ii) sell such purchased energy into the wholesale spot market and sell such purchased RECs through a competitive bid process.

TransCanada testified it could supply

National Grid with wind energy, capacity and RECs from one of its projects for less than $110/MWh.

## Briefly:

**Paetec Energy Receives D.C. Broker License**
The District of Columbia PSC granted Paetec Energy (Technology Resource Solutions) an electric broker license to serve commercial customers.

**StarTex Power Protests Tara Energy's Smart Prepaid Electric Trade Name**
StarTex Power requested that the PUCT reconsider granting Tara Energy an amendment to its REP certificate to allow Tara to use the trade name Smart Prepaid Electric (38398, Matters, 7/20/10), arguing that the name is substantially similar to and duplicative of StarTex's approved trade name SmartPay Power. "Of special note, both the Applicant and StarTex Power are based in Houston, Texas, and specifically utilize the above-described assumed names to compete within the same geographic region for a finite base of customers within the pre-paid electric market. Since this is a very defined and specific portion of the electric consumer population and due to the overriding similarities in the names described above, as well as the ability it might have to mislead customers within the specific market segment of pre-paid electric consumers, the decision granting administrative approval to Order No. 2 must be reconsidered and reversed," StarTex said. StarTex's certificate was amended to include the trade name SmartPay Power in 2006.

**PUCT Denies Consideration of DCRF in CenterPoint Rate Case**
The PUCT has declined to consider CenterPoint Energy's proposed Distribution Cost Recovery Factor mechanism in its pending rate case (38339), since the issue of a DCRF is being addressed in an ongoing rulemaking. "The Commission declines to consider CenterPoint's proposed Rider DCRF on an ad hoc basis in this docket while the Commission and all other interested participants are working towards a DCRF rule that would apply uniformly to all utilities," the PUCT said in a preliminary order designating Rider DCRF as an issue not to be addressed in the rate case.

**Second Quarter Includes Fewer Load Auction Contracts for AEP**
AEP reported lower gross margin from off-system sales for the second quarter of 2010 of $58 million versus $70 million a year ago due to reduced marketing and trading activity. In particular, the 2010 quarter reflected fewer contracts from auctions for default service. Earnings from AEP's Generation and Marketing segment, which includes AEP's non-regulated generating, marketing and risk management activities primarily in ERCOT, increased to $7 million from $4 million in the year-ago quarter from improved wind farm earnings. AEP did not discuss any impact from Ohio migration, either in its own territory or from the operations of its new competitive retail supplier, in its 10-Q or earnings call.

**RRI Continuing Operations Loss Steady**
RRI Energy reported a loss from continuing operations before income taxes for the second quarter of 2010 of $187 million, compared to a loss of $185 million for the second quarter of 2009. The 2010 reported results include net unrealized losses from energy derivatives of $66 million and $14 million in merger-related costs. The GAAP net loss for the quarter was $172 million, versus GAAP income of $803 million a year ago, with the year-ago results reflecting $900 million in income from discontinued operations, mostly Reliant Energy. RRI reported that it sold approximately 7,100 megawatts of capacity in the recent May RPM auction, capturing capacity revenue of approximately $400 million.

**Calpine Loss Widens on Weaker Prices**
Calpine reported a net loss, excluding reorganization items, discontinued operations, other items, and unrealized mark-to-market gains or losses, of $42 million for the second quarter, compared to net income of $61 million a year ago, on weaker prices. Calpine's GAAP net loss was $115 million for the three months ended June 30, 2010, versus a loss of $78 million in the prior year period. The largest

driver in weaker results was a decline in Texas commodity margin from $196 million a year ago to $128 million.

## ERCOT ... *from 1*

shortage conditions in 2007 through 2009," the IMM said.

Although the current system-wide offer cap is $2,250 per MWh, there were no hours in 2009 where an offer was submitted by a market participant that approached the offer cap. In 2009, there were only 33 hours with an offer that exceeded $1,000 per MWh, and the average of the highest offers submitted by any market participant in all hours in 2009 was approximately $400 per MWh.

As in prior reports, the IMM said that more reliable and efficient shortage pricing, "could be achieved by establishing pricing rules that automatically produce scarcity level prices when operating reserve shortages exist."

"Such an approach would be more reliable because it would not be dependent upon the submission of high-priced offers by small market participants to be effective. It would also be more efficient during the greater than 99 percent of time in which shortage conditions do not exist because it would not be necessary for market participants to effectively withhold lower cost resources by offering relatively small quantities at prices dramatically higher than their marginal cost," the IMM said.

The IMM also cautioned that while the nodal market will present some improvements regarding scarcity, "the nodal market design does not have a complete set of mechanisms to ensure the production of efficient prices during operating reserve shortage conditions."

"While important even in markets with a capacity market, efficient operating reserve shortage pricing is a particularly critical element in the ERCOT energy-only market to ensure that the long-term resource adequacy requirements are achieved," the IMM said.

As a result of inadequate shortage pricing and the fact that the number of shortage intervals in 2009 were roughly one-half of that experienced in 2008, estimated net revenues in 2009 were substantially below the levels required to support market entry for natural gas combined-cycle and combustion turbine resources at all locations in the ERCOT region. Estimated net revenues for nuclear and coal resources were also insufficient to support new entry in 2009, although these results were more affected by the reduction in natural gas prices and associated reduction in wholesale energy prices than by pricing outcomes during shortage conditions, the IMM reported.

The net revenue required to satisfy the annual fixed costs (including capital carrying costs) of a new gas turbine unit ranges from $70 to $95 per kW-year. The estimated net revenue in 2009 for a new gas turbine was approximately $55, $47 and $32 per kW-year in the South, Houston and North Zones, respectively.

For a new combined cycle unit, the estimated net revenue requirement is approximately $105 to $135 per kW-year. The estimated net revenue in 2009 for a new combined cycle unit was approximately $76, $67 and $52 per kW-year in the South, Houston and North Zones, respectively.

For a new coal unit, the estimated net revenue requirement is approximately $190 to $245 per kW-year. The estimated net revenue in 2009 for a new coal unit was approximately $93, $84 and $70 per kW-year in the South, Houston and North Zones, respectively.

For a new nuclear unit, the estimated net revenue requirement is approximately $280 to $390 per kW-year. The estimated net revenue in 2009 for a new nuclear unit was approximately $194, $187 and $172 per kW-year in the South, Houston and North Zones, respectively.

Peaker net margin dropped substantially in 2009, decreasing to $46,650 per MW-yr from $101,774 per MW-yr in 2008, largely due to corrections of market inefficiencies seen in 2008. Aside from these corrections, and the aforementioned PRR 776, a continued strong positive bias in ERCOT's day-ahead load forecast, particularly during summer on-peak hours, also impacted peaker net margin.

ERCOT's average all-in electricity price of $35.09 per MWh in 2009 was lower than the average in ISO New England, the New York ISO, PJM, and the California ISO. The ERCOT price was substantially below the price in ISO-NE, NYISO and PJM (all of which force load to pay capacity payments), where average all-in prices were at least $50, with most of the difference resulting from capacity.

The IMM raised no concerns about competitors' behavior in 2009, finding that the pivotal supplier analysis indicates that the frequency with which a supplier was pivotal in the balancing energy market decreased in 2009 compared to 2008. The frequency with which at least one supplier was pivotal has fallen consistently over the last five years from 29 and 21 percent of the hours in 2005 and 2006, respectively, to less than 11 percent of the hours in 2007 and 2008, to less than 6 percent of the hours in 2009.

The IMM also found no evidence of physical or economic withholding.