Energy Choice Matters

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Duke Companies Serving 77% of Retail Load at Duke Energy Ohio

Duke Energy Retail Sales has acquired approximately 60% of affiliate Duke Energy Ohio's migrated customers to date, executives reported during an earnings call.

Duke Energy Retail Sales also acquired around 80% to 90% of individual residential customers which migrated from Duke Energy Ohio during the second quarter.

The gross migration rate at Duke Energy Ohio as of June 30, 2010 was 56% of load. However, with Duke Energy Retail Sales' retained customers, the net load which is no longer served by Duke Energy Ohio or Duke Energy Retail Sales is only 23%, meaning 77% of load is served by either the utility or its affiliated retail supplier.

As of March 31, 2010, net switched load at Duke Energy Ohio was 20%.

Duke affirmed its earlier forecast that the incremental negative financial impact from customer migration will be in the upper end of the range of $52 million to $92 million for the year.

Duke reported that migration in Ohio has moved beyond industrial and larger commercial load to small commercial and residential customers. As first reported in *Matters*, Duke Energy Retail Sales has engaged in mass marketing efforts to retain these customers, and has also pursued government aggregation supply contracts (Matters, 6/3/10).

Aside from selectively pursuing load in non-affiliate areas of Ohio, executives said that Duke Energy Retail Sales may expand its supply relationships with Ohio-based customers to include their out-of-state operations. Aside from serving these multi-state accounts, Duke Energy Retail Sales does not currently expect to broadly participate in markets outside of Ohio.

Duke Energy Ohio is currently evaluating options to serve default service customers after the

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FirstEnergy Solutions Serving 78% of Affiliated Ohio Retail Sales

FirstEnergy Solutions Corp. reported lower net income in the second quarter of 2010 of $133.9 million, versus $297.4 million a year ago, largely on the absence of a $252 million gain in 2009 from the sale of a 9% participation interest in Ohio Valley Electric Corporation, as well as a $21 million negative impact in commodity margin from an outage at Davis-Besse.

FirstEnergy Solutions' direct (non-aggregation, non-POLR) retail sales were up by a factor of six at 7,008 GWh in the quarter, versus 1,135 GWh a year ago. FirstEnergy has provided additional detail regarding the location of competitive retail sales in reporting earnings, shown on page 6.

Of the 5,873 GWh gain in direct retail sales, 5,398 GWh were in the Midwest ISO, and 475 GWh were in PJM. FirstEnergy Solutions cited the Columbus and Dayton areas of Ohio as new territories served versus the year-ago period, as well as PPL Electric.

The increase in direct retail sales produced an incremental $204 million benefit to parent FirstEnergy Corp.'s earnings versus the 2009 quarter.

During an earnings call, executives said that in its direct sales efforts FirstEnergy Solutions

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Briefly:

TXU "Comfortable" With Customer Losses, Struggles with Acquisitions

TXU Energy is "very comfortable" with the level of customers it lost in the second quarter, but where the retailer is falling short is in winning new mass market customers to offset this churn, TXU CEO Jim Burke said during Energy Future Holdings' earnings call yesterday. Burke said that the level of customers leaving TXU in the first half of 2010 was among the lowest levels seen in the last four years, but slowed acquisitions raised the net churn rate despite improved retention. TXU attributed the slowed acquisitions to competition from lower-priced retailers, who are largely smaller players in the ERCOT market. Burke said that TXU will maintain its current pricing discipline, though it has cut prices to some degree. Burke said that TXU will not "overreact" to "very aggressive" short-term pricing signals. Quarterly results at Energy Future Holdings were discussed in yesterday's issue.

Hudson Energy Services Seeks Pa. Gas License

Hudson Energy Services, LLC applied for a Pennsylvania natural gas supplier license as a supplier of natural gas services, broker/marketer, and aggregator to serve all customer classes in all service areas. Affiliates Just Energy and Commerce Energy already have Pennsylvania natural gas supply licenses.

Allegheny Energy Supply Co. Receives Ohio Electric License

Allegheny Energy Supply Company received an Ohio competitive electric supplier license to serve commercial, mercantile, and industrial customers in all service areas (Only in Matters, 6/28/10).

Md. PSC Denies GSE Consulting, Great Lakes Energy Broker Applications

The Maryland PSC denied the electric and natural gas broker applications of both GSE Consulting, LP and Great Lakes Energy LLC. The PSC's letter orders provided no comment regarding the Commission's reasons for the denials. However, as only reported in *Matters*, Staff had recommended denial for the brokers' failure to disclose a civil penalty levied against one of the companies' investors in the past 10 years during the application process (Only in Matters, 7/29/10).

Utility Management Corporation Seeks Ohio Broker Licenses

Utility Management Corporation applied for Ohio electric and natural gas broker licenses to serve all sizes of non-residential customers in all service areas. Utility Management Corporation indicated that it has an electric broker agreement with Champion Energy Services and a gas broker agreement with Interstate Gas Supply.

Nicor Retail Products Unit Reports Lower Operating Income

Nicor's Other Energy Ventures unit reported lower operating income of $11.4 million, versus $12.7 million a year ago, primarily due to lower operating income at Nicor's energy-related products and services businesses ($2.2 million decrease), partially offset by higher operating income at Nicor's wholesale natural gas marketing business, Nicor Enerchange ($1.1 million increase). Weaker results in the energy-related products and services businesses were from lower average revenue per utility-bill management contract, partially offset by higher average contract volumes and lower operating expenses.

UGI Files Default Service Electric Rates

UGI Utilities filed default generation service rates for the period beginning September 1, 2010 of 9.653¢/kWh for GSR-1 customers and 8.807¢/kWh for GSR-2 customers.

Sharyland Utilities Files for Rate Increase

Consistent with prior orders, Sharyland Utilities filed in Docket 38520 an application at the PUCT to increase its unbundled rates for residential and secondary service to a level not to exceed AEP Texas Central Company's comparable average unbundled rates. Sharyland requested an effective date of September 15, 2010 for the revised rates.

Ness Energy Services Says Confusion with Hess "Inconceivable"

Connecticut aggregator Ness Energy Services, LLC objected to Hess Corporation's protest of Ness' aggregator application on the grounds that the Ness name infringed on the Hess trademark (Only in Matters, 7/27/10), as Ness argued that given the distinctive Hess brand and logo used in multinational operations, "[i]t is simply inconceivable that a consumer would think that Ness Energy Services, LLC is somehow connected with or related to Hess."

Peoples Choice Power Seeks Texas Aggregation License

Start-up Peoples Choice Power, LLC filed for a Texas electric aggregator certificate.

Team Energy Seeks Texas Aggregation License

Team Energy LLC applied for a Texas electric aggregator certificate.

Entergy Nuclear Earnings Rise

Entergy Nuclear reported second quarter earnings of $119.5 million, up from $80.2 million a year ago, on higher generation due to fewer planned and unplanned outages. On an operational basis, second quarter Entergy Nuclear earnings were $134.0 million, versus $95.3 million a year ago. During an earnings call, Entergy CEO Wayne Leonard did not forecast large scale consolidation in the industry, citing various factors, including required divestitures to pass anti-trust, sharing of benefits with customers (for companies with regulated distribution arms), and acquisition premiums. Leonard said that after the current building phase there may be some forced consolidations similar to what occurred in the last building phase due to financial distress.

Delmarva Files to Extend Delivery Deadline for Bluewater

Delmarva Power has filed a request with the Delaware PSC to approve an amended agreement with NRG Bluewater Wind that extends the guaranteed delivery date for power from the planned offshore wind farm by two years. If approved by the Delaware PSC, the new deadline for NRG Bluewater Wind to install and begin operating the wind farm would be Dec. 1, 2016. The deadline was previously set at Dec. 1, 2014.

Constellation NewEnergy Sells RECs to Goodwill

Constellation NewEnergy has entered into a two-year agreement with Goodwill Industries International to supply Goodwill's headquarters in Rockville, Md. with wind RECs offsetting 100% of its energy use. Goodwill is a member of the AOBA Alliance, for which Constellation NewEnergy serves as energy services provider.

Calif. Utilities Seek to Recover AB 32 Implementation Fee

Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison, and Southern California Gas filed a joint application at the PUC to authorize an increase in their respective electric and gas rates to collect the reasonable level of revenue requirements to recover the costs of the legally mandated California Air Resources Board Assembly Bill 32 annual Cost of Implementation Fee from their respective end-use gas transportation and bundled electric generation customers (A.10-08-002).

Sempra Expects North American Commodities Sale Announcement by End of September

Sempra now expects to announce a sale of its North American Gas and Power wholesale commodities business and Sempra Energy Solutions by the end of September.

Executives attributed the delay in an announcement for the two business units to uncertainty regarding federal financial reform legislation, as well as weak and less volatile gas and power markets.

While Sempra would prefer to sell both units to the same buyer, executives said that they would pursue separate sales of the commodities business and competitive supply business if separate sales were needed to extract book value from the units. The tangible book value of the businesses is about $1.6 billion with about $350 million or more of goodwill for about $2 billion in total book value.

Sempra Commodities reported break even results for the second quarter of 2010, versus earnings of $85 million a year ago, as the RBS joint venture reported lower results from crude oil, oil products, and natural gas, and higher employee retention costs. The break-even performance during the quarter was consistent with expectations and is not expected to improve significantly prior to the completion of the joint venture sales process.

Sempra Generation's second-quarter earnings rose to $48 million in 2010 from $33 million last year, due primarily to additional renewable energy tax credits from new projects. The gains from the tax credits in the most recent quarter were offset partially by lower earnings due to scheduled maintenance at two power plants and earthquake damage at the company's Mexicali plant.

West Penn Power Seeks to Procure RECs on Long-Term Contracts

West Penn Power (Allegheny) petitioned the Pennsylvania PUC for a modification to its default service plan to allow for the purchase of Solar Renewable Energy Credits and other Tier I Alternative Energy Credits through 120-month and 125-month term contracts using competitive procurements (P-00072342).

The procurements would only relate to solar and Tier I RECs required for the spot energy purchases undertaken pursuant to the default service plan, as full requirements suppliers provide solar and Tier I RECs for their associated load.

Currently, Allegheny's default service plan calls for solar RECs and Tier I RECs required for spot energy purchases to be procured on the spot market. However, Allegheny said that using long-term contracts to procure such RECs would be consistent with the PUC's policy statement concerning price certainty for solar developers. Long-term contracts for solar RECs also appear to be "standard practice" among Pennsylvania distribution companies, Allegheny added, citing the default service plans of other utilities.

Allegheny expects to purchase 200 solar RECs per reporting year for the period January 1, 2011 through May 31, 2021 (125 months) and 800 solar RECs per reporting year for the period June 1, 2011 through May 31, 2021 (120 months). Allegheny expects to purchase 25,000 Tier I RECs per reporting year for the period January 1, 2011 through May 31, 2021 (125 months) and 50,000 Tier I RECs per reporting year for the period June 1, 2011 through May 31, 2021 (120 months).

Any excess RECs would be banked. If, after banking the credits, Allegheny still has an oversupply of credits for its compliance, or if it has credits that cannot be banked, Allegheny will sell such credits on the spot market and will pass the proceeds of such sales back to its customers.

Allegheny will include a maximum acceptable bid price of $45.00 per Tier I AEC in its procurements.

NEM Urges Maine to Include Long-Term Contract Costs in Bypassable Generation Rate

The rate impact from new long-term contracts to be solicited by Maine for deep-water offshore wind energy pilot projects or tidal energy demonstration projects should be charged to those customers that are receiving utility commodity supply and directly benefiting from the long-term supply contracts, the National Energy Marketers Association said in comments to the PUC (Docket 2010-235).

During its 2010 session, the Maine Legislature enacted P.L. 2009, ch. 615, which directs the PUC to conduct a competitive solicitation for proposals for long-term contracts to supply installed capacity and associated renewable energy and renewable energy credits from one or more deep-water offshore wind energy pilot projects or tidal energy demonstration projects. The legislation requires the Commission to initiate the solicitation by September 1, 2010 (Matters, 7/21/10).

The costs of such long-term supply contracts should be added to the utility commodity rate, NEM said. "Shopping customers will not benefit from the long-term contracts and should not be required to pay for them ... Cost causation principles dictate that utility long-term supply contracting should properly be in utility commodity rates," NEM argued.

However, if the PUC deems that the contracts constitute a public good whose costs should be socialized, NEM said that cost recovery should occur in a competitively neutral manner through a nonbypassable delivery charge. In such cases, all customers, including those on competitive supply, should receive the benefits of the projects' RECs associated with their cost allocation for the project, NEM said.

The legislation includes a rate impact cap 0.145¢/kWh, and the Commission sought comments on the classes to which the cap applies, and whether certain classes are exempted from cost allocation entirely based on exemptions for conservation costs in related statutory provisions. The Office of the Public Advocate argued that all customer classes, including transmission and sub-transmission customers, are subject to the allocation of costs for the long-term contracts up to the cost cap.

BluCo Energy, Intwine Energy Elected to NEM Executive Committee

The National Energy Marketers Association announced that retail supplier BluCo Energy and Intwine Energy, a provider of internet-connected energy management products, have been elected to the NEM Executive Committee.

BluCo Energy will be represented within NEM by Michael Proscia, President, and Dino T. Jardin, Vice President. Intwine Energy will be represented within NEM by Dave Martin, co-founder and CEO.

BluCo principally offers gas supply in the New York City and Long Island areas, and also offers various other non-commodity energy project and management services.

Intwine Energy offers a variety of internet-connected load management control devices and services that enable the monitoring and control of energy usage.

BlueStar Energy Services also recently joined the NEM Executive Committee. Additionally, Inktel Direct, a provider of marketing, call center, and fulfillment services, and TruMarx Data Partners, which offers a web-based execution platform that allows buyers and suppliers of energy to create an individual private market for each bilateral OTC transaction, have joined NEM.

Duke ... *from 1*

expiration of the current electric security plan at the end of 2011, and the preference remains another electric security plan, though Duke Energy Ohio is evaluating a range of options including an electric security plan with negotiated generation rates, an electric security plan with auction-based rates, and a market rate offer.

Executives stressed that two of their top priorities in the next default service mechanism are receiving, "compensation for dedication of [Duke] assets to serve the native load customers," and addressing, "inherent risks" in the default supply business such as future customer migration.

Duke Energy CEO Jim Rogers explicitly said that making the capacity charge for the dedication of assets to Duke Energy Ohio native load nonbypassable is one way to achieve these goals. Currently, the Capacity Dedication rider (SRA-CD) is nonbypassable for residential customers, and non-residential customers who do not agree to return to default service at a market-based rate.

Furthermore, Rogers said that implementing a nonbypassable POLR charge at Duke Energy Ohio, "is something, in my judgment, [that] makes a lot of sense."

Rogers also scoffed at "asset-light" retail suppliers, and essentially dared them to take away Duke Energy Ohio's retail load, stating the following:

"It would be my judgment having lived through the asset-light environment that you're much better to have hard assets in the ground. It's kind of a more predictable capability to deliver and not be subject to the volatility of power prices in the market. So I believe long term -- and when I hear asset-light, I think Enron. And if there are Enron-type players trying to take our customers, then come on in because eventually, you're going to get run out, because you're not going to have the assets to be able to supply the power that our customers need. So my belief is it's the owners of the assets that are going to survive and do best in this environment going forward," Rogers said.

Rogers further said that the Midwest ISO "overreacted" in filing a sharply critical protest at FERC in response to Duke's application to move its Ohio and Kentucky transmission assets to PJM. Rogers said that MISO has "refused" to establish a capacity market, which, "makes a fundamental difference if we find ourselves increasingly in a merchant position."

Duke's Commercial Power segment reported a second quarter 2010 EBIT loss from continuing operations of $604 million, compared to $79 million of EBIT income in the second quarter of 2009. The results mostly reflect non-cash impairment charges of approximately $660 million related to the remaining goodwill at the non-regulated generation operations in the Midwest. Duke wrote off the remaining amount of goodwill associated with the non-regulated Ohio generation due to weak prices and increased customer migration, among other uncertainties.

Adjusted EBIT, excluding the non-cash impairment, for Commercial Power was lower at $89 million for the quarter, versus $115 million a year ago, largely reflecting a negative $25 million impact from increased customer migration.

FirstEnergy ... from 1

emphasizes its owned generation, which executives said reduces risk to the customer of supplier default. The owned generation also allows FirstEnergy Solutions to offer more customized products to customers, as it is not dependent on the wholesale market for complex products.

Government aggregation sales in the quarter were 2,711 GWh, versus no government aggregation sales a year ago. All of these sales were in MISO. FirstEnergy Solutions now has contracts to serve municipal aggregations in Ohio covering 1.1 million mass market customers.

FirstEnergy Solutions Direct Retail Sales

(GWh)	Q2 '10	Q2 '09	Change
Ohio	4,588	4	4,584
Pennsylvania	1,078	863	215
New Jersey	327	93	234
Michigan	427	4	423
Illinois	518	133	385
Maryland	70	38	32
Total	7,008	1,135	5,873

The increase in government aggregation sales benefited the earnings of parent FirstEnergy Corp. by an incremental $107 million versus the year-ago period.

The direct and aggregation gains were offset by a $247 million incremental decline in earnings contribution from FirstEnergy Solutions POLR sales, due to lower volumes. POLR volumes were down by 5,700 GWh versus the year-ago period at 7,600 GWh. Also more than offsetting the gains from competitive retail sales were higher fuel costs, higher capacity costs, and the aforementioned nuclear outage.

Combining direct, aggregation and POLR sales, FirstEnergy Solutions supplied 78% of the retail sales at its affiliated Ohio distribution companies in the second quarter, compared to 84% a year ago.

For the 2010 quarter, 26% of retail generation sales at the FirstEnergy Ohio distribution companies were provided by FirstEnergy Solutions as a POLR provider; 31% were provided by FirstEnergy Solutions serving as a customer's competitive load serving entity through a direct retail transaction; and 21% were served by FirstEnergy Solutions serving a government aggregation. For the 2009 quarter, all of the FirstEnergy Solutions sales in its affiliated Ohio territories were as a POLR provider.

Revenues for FirstEnergy Solutions direct retail and government aggregation sales were higher for the quarter at $586 million versus $83 million a year ago. FirstEnergy Solutions POLR revenues were down at $586 million versus $839 million in the year-ago quarter.