Energy Choice Matters

August 9, 2010

Reliant Energy Seeking Pennsylvania Electric License to Serve Large, Mid-Merit Customers

Reliant Energy Northeast, LLC, a unit of NRG Energy, applied for a Pennsylvania electric generation supplier license to serve load at PPL, PECO, Met-Ed, Penelec and Duquesne Light.

Notably, Reliant is only seeking authority to serve commercial customers over 25 kW, industrial customers, and governmental customers, and is not seeking to serve mass market customers at this time.

Since acquiring the Reliant Energy Texas business last year, NRG has focused on integrating its ERCOT generation and retail portfolios.

In PJM, NRG currently owns over 1,000 MW of generation, consisting mostly of Indian River in Delaware, and not including the in-development Bluewater project.

NRG also owns district heating systems serving Pittsburgh and Harrisburg. NRG Power Marketing, LLC will serve as the wholesale power marketer for Reliant Energy Northeast, LLC.

The Pennsylvania application represents the first tangible indication since NRG purchased the Reliant Texas book that it will not confine itself to the ERCOT retail market.

First Choice Earnings Lower on Reduced Margins

First Choice Power reported lower ongoing earnings of $10.7 million, compared with $12.6 million a year ago, on reduced margins reflecting compressed unit margins and a slight decline in volumes sold.

GAAP earnings were $16.6 million, versus $16.0 million a year ago, reflecting higher unrealized mark-to-market gains versus the prior-year period.

Though margins were lower, the rate of margin compression has slowed as First Choice Power has elected not to get into "price wars" with smaller competitors, said PNM Resources CEO Pat Vincent-Collawn.

Collawn reported that margins saw a 20% decline last year but only a 3% to 5% decline thus far this year.

The lower margins negatively impacted ongoing EBITDA by $8.5 million versus the year-ago quarter. First Choice ongoing EBITDA for the 2010 quarter was $17.3 million, versus $21.1 million a year ago, as improved bad debt levels,

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Constellation Signs Agreement to Acquire Boston Gen Gas Fleet

Constellation Energy has signed an asset purchase agreement with Boston Generating to acquire its 2,950-megawatt fleet, the third largest power generating portfolio in the New England region, for approximately $1.1 billion, or roughly $372/kW.

The proposed transaction is expected to be consummated through a court-approved bankruptcy proceeding to be initiated by Boston Generating. If approved, Constellation Energy's bid would then be considered the price to be beat in an asset auction to be held later this year.

If Constellation Energy is ultimately the successful acquirer, under terms of the agreement it would acquire Boston Generating's five power plants located in the Boston area: four natural gas fired plants, including Mystic 8 and 9 (1,580 megawatts), Fore River (787 megawatts), Mystic 7 (574 megawatts); and a fuel oil plant, Mystic Jet (9 megawatts).

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ERCOT Seeks Clarification of Impact of Potential Trade Name Restriction on LSE Registration

ERCOT has asked that the PUCT clarify its proposed REP certification rule which would limit REPs to a single trade name in addition to their certificated name, requesting that the Commission clarify whether the proposed restriction in intended to apply to the Load Serving Entity (LSE) registration process at ERCOT (37685).

The draft rule calls for the new trade name limitation to be effective January 1, 2011 (Only in Matters, 6/15/10).

ERCOT sought guidance on whether the proposed rule will require a REP currently using more than one assumed name to obtain separate REP certificates for each assumed name or consolidate each assumed name into one REP certificate by January 1, 2011.

Currently, if a REP wants to segregate its transactions in the retail market for each assumed name, ERCOT will instruct a REP to submit distinct LSE registrations with separate DUNs numbers. Therefore, if the proposed rule is intended to require existing REPs with more than one assumed name to use one assumed name starting on January 1, 2011, ERCOT recommends that the Commission provide a later implementation date for the trade name requirement to allow impacted REPs time to complete the LSE registration process at ERCOT.

Echoing comments from Tenaska, which uses different variations of its name to differentiate each customer's load, ERCOT noted that a significant amount of REPs would have to undergo full qualification testing for each new LSE registration at ERCOT, and reported that, "significant and costly changes would have to be made to the REP to Qualified Scheduling Entity (QSE) mapping structure at ERCOT."

ERCOT will suspend the ability to restructure, remap, or consolidate REP and QSE relationships prior to the initiation of the nodal market on December 1, 2010, and therefore, it will be next to impossible for all REPs with more than one assumed name to restructure their QSE relationships for each separate LSE registration by January 1, 2011.

Furthermore, because the proposed rule would require re-registration at the Commission and ERCOT for the separate or consolidated REP certifications and LSE registrations, ERCOT would have to conduct a mass transition of the REPs' electric service identifiers (ESI IDs) to the appropriate new LSEs, because ERCOT cannot change the DUNs number of an LSE in its systems, ERCOT added.

City of Dallas Considering Creating REP to Self-Serve Load

Broker-consultant Priority Power Management, LLC is conducting an analysis for the City of Dallas of the feasibility and viability of the city becoming its own retail electric provider. The disclosure was contained in a June powerpoint presentation to City Council members first reported by the *Dallas Morning News* Saturday.

The City's initial interest is to self-serve its own load, though serving non-municipal accounts, both within and outside Dallas remains a possibility.

The June presentation notes that preparation for creation of the City's own REP would require 12 months. Annual savings were projected at $4.4 million. The City is also considering ownership of generation.

On Friday, Priority Power Management announced that TXU had been selected to serve Dallas municipal loads on a new three-year electric contract covering more than 2.2 million megawatt-hours. The agreement includes RECs from Texas wind farms to offset 40% of usage.

The June presentation said that TXU was among a field of seven short-listed suppliers which also included Constellation NewEnergy, Inc.; GDF SUEZ Energy Resources NA, Inc.; Gexa Energy, L.P.; Reliant Energy Retail Services, LLC; Sempra Energy Solutions, LLC; and the Texas General Land Office.

The contract split municipal loads into two groups, with large loads on interval meters served on fixed blocks, with other non-demand or unmetered customers served on a load following basis. Priority Power also said that the contract mitigates any potential price risk to the City from changes associated with the implementation of the nodal market.

Pa. OCA Says Customers Should be Allowed to Restrict All Data

Pennsylvania electric customers should be permitted to restrict all of their information from eligible customer lists provided to competitive suppliers, the Office of Consumer Advocate said in comments on a tentative PUC order (M-2010-2183412)

The Tentative Order would only allow customers to restrict their telephone number and billing data. Victims of domestic violence or similarly situated customers would be able to restrict their addresses as well (Matters, 7/16/10).

The OCA argued that, consistent with the Commission's findings in 1999, all customers should be able to restrict the sharing of any and all of their information, not just their phone numbers and billing data.

OCA contended that the Tentative Order did not identify any problems that have arisen under the longstanding policy of allowing customers to restrict all of their information.

OCA stressed that, under the 1999 order, customers had to affirmatively elect to restrict all of their information, and the default setting was that such information would be made available to suppliers. Though not explicitly cited by OCA, the implication is that the opt-out process would make it less likely that a large portion of customers would restrict all data, due to customer inertia, thus preserving the utility of customer lists.

"It is not clear why the Commission has tentatively concluded that the ability of customers to exercise that option should no longer be permitted," OCA said.

PPL Electric Utilities and Duquesne Light also supported granting customers the ability to restrict all of their information.

"Duquesne believes it should honor the wishes of [its] customers on the release of customer information -- even if that request is not to release any information to third parties."

OCA further raised concern with the sharing of residential on-peak and off-peak data, as well as load factor, that will become available with the installation of smart meters.

Other Issues

The Energy Association of Pennsylvania requested that in instances where the requirements of the Tentative Order would require an electric distribution company (EDC) to modify the manner in which is maintains its customer list, "the interim guidelines should provide sufficient time in which to make the changes based on a schedule established by the EDC and its IT department."

The Retail Energy Supply Association urged the Commission to ensure timely implementation of the new customer list guidelines so that such lists can be available prior to the January 1, 2011 expiration of rate caps at the remaining utilities.

Citing the costs to modify backoffice systems to implement changes in the customer lists and the lack of any immediate cost recovery mechanism (with costs addressed in base rate proceedings), PPL asked that the PUC, after completing the instant proceeding, impose a moratorium on any modification to the content and provision of customer lists through December 2012. PPL noted that this moratorium would provide experience with which to assess the usefulness of the new customer lists and any issues that arise.

The Tentative Order requires distribution companies to provide capacity and transmission obligations, both current data and future data, "when the future obligation calculations become available." Several distribution companies sought clarification regarding the obligation to provide future data, requesting that the Commission deem this information to be available only after it is submitted to PJM, which typically occurs annually in December or January.

The Tentative Order rejected suppliers' request that the customer lists include for commercial customers contact information for the customer's authorized representative or decision-maker for utility issues. RESA asked that, if not included in the customer lists (due to concerns that not all utilities track this information), then the Commission should at least direct utilities to provide such contact information upon request, where such information is available.

Md. PSC Staff Raises Concern With Proposed Procurement Method for WGL Winter Hedges

While generally concluding that Washington Gas Light's winter hedging proposal is reasonable, Maryland PSC Staff have raised several concerns with WGL's proposal (Case 9224, Only in Matters, 7/21/10).

Chief among these concerns is WGL's proposed procurement methodology. Staff noted that the bids proposed to be issued contain two separate parameters, price and delivery point, "causing the evaluation of multiple bids to be necessarily subjective."

"It is not clear how WGL intends to evaluate the attractiveness of several competing offers, each of which specifies different prices and delivery points," Staff said.

Staff further said that WGL's proposal suggests that additional factors, which are unstated, other than price and delivery point will be used in deciding which offers to accept.

"This ambiguity is compounded by the 'sole and absolute' discretion reserved by the Company for itself," Staff added.

Staff said that WGL has not developed a basis upon which the benefits of the winter hedging proposal can be measured to determine if the proposal is in the public interest, and called WGL's proposed status reports deficient.

The Office of People's Counsel does not oppose WGL's proposed hedging plan for the winter heating season, but asked that WGL's proposed volumes (2,720,000 Dth of hedged winter season purchases for Maryland sales customers, or alternatively the Maryland allocated share of a total WGL system quantity of 6,350,000 Dth) should be set as hard caps which WGL may not exceed absent additional Commission approval.

"WGL has never provided a demonstration or analysis indicating that its past hedging activities have been worth the high cost they imposed on WGL's Maryland gas sales customers," OPC added. "The principal beneficiary of the additional costs that WGL has incurred in its hedging activities is WGL's unregulated affiliate, Washington Gas Energy Systems [sic] (WGES). WGES benefits from high gas costs incurred by WGL, because WGES is by far the largest Competitive Service Provider (CSP) in WGL's Choice program, and is therefore WGL's chief gas supply competitor. In this situation, there is no reason for the Commission to authorize hedging in excess of the limited and relatively small quantity for which WGL seeks explicit approval," OPC said.

OPC recommended that the PSC only authorize WGL to use fixed price contracts or financial swaps equivalent to fixed price contracts, and not authorize options or other unspecified hedging instruments that might fall under WGL's request for flexibility to modify the plan after the Commission approves it.

Briefly:

ConEdison Solutions Net Income Higher on Margins

ConEdison Solutions reported higher net income of $52 million, versus $23 million a year ago. The 2010 quarter includes $39 million in net after-tax mark-to-market gains, versus $18 million in such gains a year ago. The balance of the gains was largely attributed to higher retail electric margins. Gross margins on electric retail revenues increased significantly due primarily to the sale of higher margin contracts, lower costs, and higher volumes. ConEdison Solutions' operating revenues were $353 million, versus $324 million a year ago. Electric retail revenues increased $64 million from about $282 million a year ago to $346 million, due to higher sales volume ($80 million), offset by lower per unit prices ($16 million).

Pepco Energy Services Earnings Flat

Pepco Energy Services reported flat net income from continuing operations of $10 million, which is even with the year-ago period. Operating revenues for Pepco Energy Services' retail energy supply business (excluding power generation and energy services) for the three months ended June 30, 2010 were $401 million, versus $534 million a year ago. Operating income at the retail supply unit was $10 million, versus $31 million a year ago. Gross margin for the retail supply unit (when including generation but excluding energy services) was lower at $36 million, versus $41 million a year ago. Quarterly retail electric sales at Pepco Energy Services were 3,116 GWh, down from 4,594 GWh a year ago, reflecting the previously reported wind down of the business. During an earnings call, Pepco Energy Services CEO John Huffman said that the wind down is "on track," reporting that Pepco Energy Services had a backlog at the end of the quarter of about 14 million megawatt-hours. About 70% of that total is going to go away by the end of 2011. A small portion of retail contracts runs through 2014.

Mirant Adjusted Income Lower

Mirant reported lower adjusted net income of $46 million, versus $131 million a year ago, on lower value from realized hedges partially offset by higher energy gross margins from Mid-Atlantic generation. On a GAAP basis, Mirant reported a net loss of $263 million versus income of $163 million a year ago, as the 2010 quarter reflects $340 million in unrealized losses, principally on hedges. Gross margin for the quarter was lower at $312 million versus $360 million a year ago. Gross margin detail is as follows:

(millions)	Q2 '10	Q2 '09
Energy	$ 96	$ 71
Contracted & Capacity	138	137
Realized Value of Hedges	78	152

Dynegy Adjusted Earnings Fall on Reduced Volumes

Dynegy reported Adjusted EBITDA from its power generation segments of $150 million for the second quarter of 2010, compared to $170 million for the second quarter of 2009, reflecting the absence of income from assets sold late last year. Dynegy said that when comparing Adjusted EBITDA of only the retained assets versus the year-ago, adjusted EBITDA increased 16% year-over-year.

Dynegy's generation segments reported an operating loss of $200 million for the quarter, reflecting mark-to-market losses of $262 million, while in the year-ago quarter it reported an operating loss of $421 million, which reflected an impairment charge and mark-to-market losses. Adjusted EBITDA by generation region was as follows:

millions	Q2 '10	Q2 '09
Midwest	$81	$120
West	32	37
Northeast	37	13

The increase in Adjusted EBITDA in the Northeast reflects, among other things, the absence of a year-ago write-down associated with coal inventory. The GAAP loss attributable to Dynegy Inc. for the quarter was $191 million, versus a loss of $345 million a year ago.

First Choice ... *from 1*

discussed below, partially offset lower margins.

First Choice's disciplined pricing strategy also accounts for its customer churn in the residential market.

First Choice Power total customer count as of June 30, 2010 was 216,100, versus 221,400 as of March 31, 2010 and 243,300 as of June 30, 2009.

Though First Choice does not break out customer count by segment, executives said that First Choice has seen a decline of about 11% in its residential customer base versus the year-ago period. That trend can be seen in the residential volume data (see chart next page).

However, net residential attrition has slowed, and First Choice expects its year-end residential count to be at or slightly below the 2009 year-end levels.

PNM Resources CFO Chuck Eldred said that First Choice was "not concerned" with the residential customer losses, because, aside from reflecting a disciplined pricing strategy, the losses also represent First Choice's strategy of retaining only higher credit quality customers. Furthermore, First Choice is offsetting much of the lost residential volume with increased commercial volumes.

Though Eldred did not characterize the progress on small to mid-sized commercial customers as reflecting a new "aggressive" strategy to target the market or substantially shift First Choice's focus, First Choice is seeing increasing traction in the segment.

The focus on higher credit quality residential customers continues to be borne out in First Choice's bad debt numbers. Bad debt expense for the second quarter of 2010 was $6.1 million

(5.1% of revenue), versus $10.1 million (7.3% of revenue) a year ago. Executives expect bad debt levels to rise for the third and fourth quarter due to higher summer usage and bills, but still expect levels to remain in the 6.5%-7% range for the year.

Quarterly operating revenue at First Choice Power was $119.9 million, versus $138.0 million a year ago.

PNM Resources raised its earnings guidance for First Choice Power from a range of about $14-20 million to a range of $25-30 million. First Choice Power's forecasted EBITDA range was raised to $40-$50 million from the prior guidance of $25-$35 million.

PNM Resources' share of Optim Energy's quarterly net ongoing losses was $1.9 million, compared with earnings of $300,000 in 2009, due to lower market prices.

Asked if PNM Resources was contemplating an integrated approach to managing Optim's generation and First Choice's load, Eldred said that the first priority is to stabilize the Optim business in the current environment. From that point, PNM can address any potential alternative approaches to the operation of the two currently independent units, and ways in which synergies and integrations might be recognized.

PNM Resources has not yet filed a 10-Q.

First Choice Operating Revenues

(millions, except customer count)

Three Months Ended June 30,

	2010	2009	Change
Residential	$ 75.3	$ 92.8	$ (17.5)
Mass-market	4.1	6.4	(2.3)
Mid-market	36.4	33.7	2.7
Trading gains (losses)	(0.1)	0.1	(0.2)
Other	4.2	5.0	(0.8)
Total	$ 119.9	$ 138.0	$ (18.1)
Customers (thousands)	216.1	243.3	(27.2)

First Choice Power Volume

(GWh)

Three Months Ended June 30,

	2010	2009	Change
Residential	549.3	644.1	(94.8)
Mass-market	24.9	37.3	(12.4)
Mid-market	321.2	273.8	47.4
Other	1.4	2.9	(1.5)
Total	896.8	958.1	(61.3)

Constellation ... *from 1*

Constellation Energy has previously stated its interest in acquiring physical generation assets in the New England Power Pool (NEPOOL), where the company operates large retail and wholesale competitive supply businesses. Constellation Energy currently serves approximately 13.3 TWh of customer load in the NEPOOL market where Boston Generating is located. Constellation currently has no generation assets in the region.

The assets would further improve Constellation's net load to generation ratio to approximately 55 percent.

Based on the current bid price, Constellation Energy would expect the transaction to be accretive to earnings beginning in 2011. Constellation Energy plans to finance the transaction through a mix of available cash on hand and debt.

Constellation Energy's financial advisors were Credit Suisse and UBS Investment Bank and its legal advisor was Winston & Strawn LLP. Boston Generating's financial advisors were J.P. Morgan and Perella Weinberg Partners and its legal advisor was Latham & Watkins LLP.