Energy Choice Matters

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Favorable Gexa Margins, Especially in Texas, Lift NextEra Earnings

Strong results at Gexa Energy helped improve NextEra Energy Resources' contribution to parent FPL Group's quarterly earnings, as adjusted earnings at NextEra increased to $217 million for the second quarter, from $169 million a year ago. On a GAAP basis, NextEra earnings were $186 million, compared with $3 million a year ago.

FPL credited Gexa's retail business in Texas as incrementally adding about $0.05 per share (approximately $20 million) to NextEra's results, due to favorable margins.

Improved wholesale marketing and trading operations added $0.09 in adjusted earnings per share (about $37 million) when compared to the prior year's quarter.

Contribution from existing wind resources was down about $28 million due to unfavorable weather, but was mitigated by contributions from new wind resources (with additions totaling roughly 1,370 MW year-over-year), and various wind-related tax benefits.

Results from NextEra's gas-fired assets in ERCOT were down about $33 million from lower power prices. Northeast generation benefited from the lack of a refueling outage at the Seabrook Nuclear Power Station and higher-priced hedges, and were up about $33 million versus the prior-year quarter.

Under NextEra's 2010 hedging program, expected ERCOT spark spread gross margin contributions are lower by about $55 million (at $155-$255 million) versus the first quarter projection, mostly reflecting continued spark spread weakness and lower anticipated margins on ancillary services and options sales. The equivalent hedged gross margin of the NEPOOL portfolio is higher by about $35 million (at $820-$830 million), and is being driven primarily by a combination of lower fuel costs, greater expected production, and improved spark spreads, NextEra said.

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RRI to Maintain Open Position, Not Pursuing Load Auctions

RRI Energy expects its loss from continuing operations before income taxes for the second quarter of 2009 to be approximately $185 million, compared to income of $144 million for the second quarter of 2008, RRI said in a second quarter preview released in conjunction with an analysts day.

Adjusted EBITDA is expected to be approximately negative $78 million for the second quarter of 2009, compared to positive $202 million for the second quarter of 2008. Open EBITDA, another non-GAAP metric which excludes additional hedging impacts, is projected at negative $10 million for the second quarter of 2009, compared to positive $136 million for the second quarter of 2008.

RRI said that as of June 30, 2009, it had available liquidity of $1.9 billion, comprised of $461 million of unused borrowing capacity and $1.5 billion of cash and cash equivalents.

Aside from a modest hedging program to manage financial risk in the near-term, RRI will continue to leave the majority of its output open, in order to position the generator for recovery. Asked by an analyst during a Q&A session about participation in Pennsylvania and Ohio default service load auctions, RRI said that it has not explored auction participation in the near term, noting that auction prices are often bid down to a level where participation is not beneficial economically.

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Maine PUC Approves Medium/Large C&I Standard Offer Rates

The Maine PUC approved new Standard Offer rates for medium and large commercial customers at Central Maine Power and Bangor Hydro-Electric for the six-month period beginning September 1.

Central Maine Power

Medium Commercial ($/kWh)

Sep-09	$0.054236
Oct-09	$0.058404
Nov-09	$0.062634
Dec-09	$0.071644
Jan-10	$0.080454
Feb-10	$0.081924

Large Commercial ($/kWh)

Sep-09	$0.054000
Oct-09	$0.059000
Nov-09	$0.066000
Dec-09	$0.074000
Jan-10	$0.083000
Feb-10	$0.084000

Bangor Hydro-Electric

Medium Commercial ($/kWh)

Sep-09	$0.056020
Oct-09	$0.061020
Nov-09	$0.063020
Dec-09	$0.072020
Jan-10	$0.081020
Feb-10	$0.081520

Large Commercial ($/kWh)

Sep-09	$0.061000
Oct-09	$0.071000
Nov-09	$0.079000
Dec-09	$0.091000
Jan-10	$0.097000
Feb-10	$0.101000

Integrys Marketer Says ICC Staff Interpretation on Disclosures Would Hinder Competition

A finding that Integrys Energy Services may not offer a proposed "managed price" product under applicable Illinois consumer protection codes and statutes would prevent alternative retail electric suppliers (ARES) from offering a competing product to an option currently offered by the distribution utilities, Integrys Energy Services (Integrys) said in a reply at the Illinois Commerce Commission (Matters, 7/9/09).

As only reported by *Matters*, Integrys sought a declaratory ruling from the Commission regarding the applicability of Sections 16-115A and 16-115C of the Public Utilities Act, and Section 2EE of the Consumer Fraud and Deceptive Trade Practices Act, to a supply agreement the marketer has with New Illinois Cooperative Energy (NICE). Under the NICE agreement, NICE will offer its members electricity to be supplied by Integrys, with NICE responsible for marketing its product to the public. Integrys will not itself be engaged in the sale of the product to customers (Only in Matters, 3/25/09).

The main issue in the case is that the per kilowatt-hour rate customers will be paying will not be known ahead of time. Integrys' supply costs include a true-up component which is required because the costs to supply the program cannot be known until Integrys' costs are finalized, which occurs approximately two months after the close of each calendar month. Customers are thus not contracting for a specific kilowatt-hour rate, but rather for Integrys to serve them on a managed wholesale portfolio.

Staff has said that should the Commission agree to rule on the petition, it should deny the relief requested, arguing that due to the lack of a known price, or at least a price tied to a public index, Integrys' product fails to meet various requirements for adequate pricing disclosures prior to contracting.

"If that is the case, then ARES are effectively foreclosed from offering this type of innovative pricing, even though utilities can," Integrys countered. "Both ComEd and Ameren have real time pricing options that let customers take prices in real time even though the prices are not known at the beginning of the month," Integrys noted.

Integrys said its proposed contract, along with the marketing materials that support it, accurately and openly informs customers of the pricing arrangements. The contract discloses to the customer that the price is variable, that it has certain fees and charges added, and that it might not be lower than the utility rate.

"Staff is unable to find any disclosure that [Integrys] could make, but has withheld," Integrys said.

Staff prefers that the Commission dismiss the petition for declaratory relief, arguing that Integrys lacks standing, and that a declaratory ruling is inappropriate for determining rights and responsibilities.

Integrys, however, said that the Commission and the Appellate Court have interpreted the declaratory ruling power more broadly than simply ruling on whether a statute is applicable, as Staff argues. Integrys cited several cases where the Commission ruled on declaratory petitions seeking an interpretation of a law, or how the law is applied. In MidAmerican Energy Corporation v. Illinois Commerce Commission, the Appellate Court found that the Commission had issued a proper declaratory ruling in adjudicating the question of whether MidAmerican was prohibited from selling natural gas at competitive prices in areas outside its utility service territory, and whether it could do so without prior Commission approval. "These questions are of a similar nature to those [Integrys] asks here: whether a particular type of business arrangement is lawful under the Commission's statutes, and whether a business needs Commission approval to act," Integrys said.

Integrys noted that the Commission also granted a declaratory ruling to the Ameren utilities in ICC Docket No. 06-0338, as the Commission interpreted a regulation requiring meters to meet certain standards before entering service, rather than simply ruling on whether Ameren was subject to the regulation.

CL&P Opposes Early OCC, DPUC Consultant Role in Non-RFP Bilaterals

Participation by the Connecticut Office of Consumer Counsel in the initial stages of developing negotiated, bilateral power supply arrangements would be inappropriate, Connecticut Light and Power said in reply comments at the DPUC (Matters, 7/14/09).

CL&P was responding to OCC's statement that unlike at United Illuminating, OCC has not been invited to participate in CL&P's efforts to procure bilateral supplies for Standard Service. CL&P noted that it has invited OCC to be involved in discussions of its competitive RFP efforts.

"However, CL&P still believes that other bilateral arrangements, developed outside of an RFP, are inappropriate for initial disclosure to or participation by the OCC or the DPUC's consultant during early exploration and development of such contracts. Such arrangements may only arise outside the parameters of an RFP ... The appropriate time for such review by the OCC or the Department's consultant of a non-RFP bilateral contract, is at the time of filing of a proposed contract with the DPUC," CL&P said.

CL&P also reiterated its view that separate buy and sell teams should only be required if an affiliate of the utility participates in an RFP or sells power to a distribution company.

EnerNOC Narrows Q2 Loss

EnerNOC posted a narrowed second-quarter loss of $5.7 million, compared to a loss of $10.4 million for the second quarter of 2008.

Quarterly gross profit was $18.1 million, nearly double gross profit of $8.9 million a year ago. Gross margin was 42.8% for the second quarter of 2009 compared to 37.5% for the same period in 2008.

Revenues were $42.4 million, up from $23.7 million a year ago. Of that total, $40.9 million was from demand response (versus $21.9 million a year ago). The remaining $1.5 million in 2009 revenue was from energy management solutions, down from $1.8 million for the quarter ended June 30, 2008.

Cost of revenues for the second quarter totaled $24.3 million, rising 64% from $14.8 million a year ago. Operating expenses were $22.5 million, compared to $19.5 million for the same period in 2008.

EnerNOC ended the quarter with over 3,150 MW of demand response under management, an increase of over 450 MW during the quarter and over 1,100 MW year-to-date.

In the second quarter EnerNOC also acquired Equilibrium Solutions Corporation, a developer of enterprise carbon management and energy efficiency software applications.

During an earnings call, EnerNOC said it continues to evaluate partnership and acquisition opportunities.

Disconnections This Summer Lower in ERCOT Thus Far

Disconnections in the ERCOT market thus far are lower than prior summers and the average monthly total from 2007-2008, PUCT Staff reported.

Based on preliminary numbers provided by Oncor, CenterPoint, AEP Central, AEP North and Texas-New Mexico Power, disconnects for non-pay completed by TDUs were as follows:

June 2009	57,604
July 1- 15, 2009	20,283
Summer 2008	
June 2008	92,337
July 2008	88,798
Aug. 2008	109,915
Sept. 2008	86,620
Summer 2007	
June 2007	81,659
July 2007	92,399
Aug. 2007	73,408
Sept. 2007	100,160

Staff said the data provided is accurate, but subject to further checks and screening before it will be considered final.

The average number of disconnects completed from June 2007 to September 2008 was 100,000, Staff had previously reported (Matters, 7/13/09).

Briefly:

DaCott Energy Management Seeks Pa. Electric License

DaCott Energy Management applied for an electric supply license at the Pennsylvania PUC, selecting "other" as its type of registration and describing its operations as an "[e]lectricity agent who will advise customers on electricity supply issues." DaCott applied only to serve municipal and cooperative customers.

Employers' Energy Alliance of Pennsylvania Seeks Marketing Licenses

The Employers' Energy Alliance of Pennsylvania applied for electric and natural gas broker/marketer licenses at the Pennsylvania PUC, to serve non-residential customers in all utility territories. Fluent Energy will handle all technical and accounting aspects of energy procurement for the Employers' Energy Alliance of Pennsylvania. The marketer's president, J. David Bell, is an engineer who founded and runs Erie DriveTrain, which specializes in driveline and industrial power transmissions.

SaveOnEnergy Taps Reliant Exec as COO

SaveOnEnergy.com named David Roylance president and chief operating officer, who will oversee day-to-day operations of the company and be responsible for the expansion, development and growth of SaveOnEnergy.com in both the commercial and residential fields across the North American markets. Roylance spent over a decade at Reliant, most recently as senior vice president, where he led the expansion of commercial and industrial sales and marketing and in 2009 also added residential sales to his responsibilities. Roylance will be based out of a new Houston office for SaveOnEnergy.com, which is based in North Texas.

OCC, Dominion Retail Reach Agreement in Principle on Complaint

The Ohio Consumers' Counsel and Dominion Retail have reached an agreement in principle to settle OCC's complaint regarding Dominion Retail's marketing postcard which contained various statements regarding the new Standard Choice Offer at Dominion East Ohio. Parties are working to file a stipulation by August 5 (Matters, 5/8/09).

MXenergy Extends Exchange Offer Deadlines

MXenergy Holdings announced it has extended the early consent deadline and the withdrawal deadline for the exchange offer and consent solicitation of its outstanding Floating Rate Senior Notes due 2011 until 5:00 p.m., New York City time, on July 31, 2009. MXenergy also extended the expiration date for the Exchange

Offer and Consent Solicitation until 12:00 a.m. midnight, New York City time, on August 1, 2009, to provide additional time for ongoing negotiations with the contemplated provider of its proposed new credit, hedge and supply facilities. As of 12:00 a.m. midnight, New York City time, on July 28, 2009, approximately $158.8 million in aggregate principal amount of the Notes had been tendered in the Exchange Offer and consented to the proposed amendments in the Consent Solicitation. As only reported by *Matters*, the exchange offer is integral to a restructuring plan at MXenergy (Matters, 7/2/09).

Solar Alliance Pushes for Non-Wind RPS in Texas

The Solar Alliance filed comments at the PUCT in support of a non-wind RPS carve-out, which the alliance said does not require additional legislative authorization to implement (Only in Matters, 6/26/09). The Solar Alliance encouraged the Commission to institute a "bridge" mandate establishing a non-wind RPS until a more comprehensive program similar to the one proposed in this session's SB 545 can be considered by the legislature in 2011.

FirstEnergy Ohio Utilities Ask to Accelerate Deferral Collections

Ohio Edison, Cleveland Electric Illuminating and Toledo Edison applied at PUCO to accelerate recovery of various deferred costs, including costs under the Rate Certainty Plan. The FirstEnergy companies said accelerating deferral collections would save about $320 million in carrying costs. If deferrals were collected over the original 25-year horizon, the nominal amount ultimately paid by all customers would equal approximately $636 million. The proposed accelerated collection would be accomplished through a distribution rider imposed only during winter months between September 2009 and May 2011, while still maintaining a differentiation in summer and winter bills. The utilities said the accelerated collection is appropriate given lower generation costs. Separately, the FirstEnergy companies also filed a revision to their proposed program to purchase RECs from residential customers, adjusting the length of the purchase agreement to 15 years from the prior term of through May 2011.

NextEra ... from 1

The equivalent gross margin hedged in NextEra's non-asset based business has also improved by about $35 million for 2010, driven mainly by improved retail operations in Texas (just under half of the increase), as well as NextEra's supply contract with the Northeast Ohio Public Energy Council.

FPL Group CEO Lewis Hay said that the governmental aggregation supply contract worked out "favorably" for NextEra, adding, "It's clearly something that we're interested in on a deal-by-deal basis, not something we're kind of go whole hog into, but if those opportunities exist out there, we think we can be competitive."

Hay did not wish to disclose the NOPEC contract margins or the overall gross margin impact, but characterized the agreement as a "very good deal," adding that, "we certainly would look for other opportunities where we have a chance to sign up a large muni base and then have the opportunity to go out in the market and buy that power."

Noting NextEra has been in the full requirements business for a number of years, and is in the market buying power or fuel or selling power and fuel quite a bit around its assets, Hay believes NextEra has a competitive advantage in such municipal aggregation contracts, but stressed NextEra won't pursue deals to simply add to the revenue line without the requisite margins.

Citing economic conditions and reduced load, NextEra trimmed its expected wind additions for 2010 from 1,400 MW to 1,000 MW, while it anticipates adding 1,000 MW in 2009. NextEra said that utilities are delaying entering into PPAs due to the reduced load they are seeing, and Hay told investors that NextEra would not build wind on a pure merchant basis. Based on current conditions, getting to the low end of NextEra's previously announced 2008 to 2012 new wind range of 7,000 to 9,000 MW may be overly optimistic, executives said.

Executives remain bullish on wind, however, and are actively looking at certain distressed wind plants for possible acquisitions. While the bid-ask spread was too wide in the first quarter to jumpstart acquisition, Hay believes that by the third and fourth quarters more deals will be executed.

RRI ... from 1

Noting that in PJM, return on invested capital is often below the weighted average cost of capital, CEO Mark Jacobs said success in the sector depends on disciplined capital investments -- meaning buying assets at a discount rather than building new capacity.

Jacobs also expects the competitive generation industry to see consolidation, though he recognized current impediments such as the condition of the financial markets and actions by ratings agencies. However, over time, the benefits of diversity and scale will compel consolidation, Jacobs said.

The power markets are also several years away from seeing any real benefit from tightening supply/demand fundamentals, Jacobs added.

Jacobs called the sale of RRI's Reliant retail business transformative, noting it reduced debt levels, improved liquidity, and most importantly, removed the risk of about $3 billion in capital requirements.