



State of Michigan  
Jennifer M. Granholm, Governor

Michigan Public Service Commission  
J. Peter Lark, Chairman  
Laura Chappelle, Commissioner  
Monica Martinez, Commissioner

# MEMORANDUM

**Date:** May 17, 2006  
**To:** Sue Devon, Director  
Regulated Energy Division  
**From:** Sheila Cornfield  
**Subject:** Alternative Gas Supplier: **Constellation NewEnergy-Gas Division, L.L.C.**  
**U-14867**

Staff recommends approving an Alternative Gas Supplier license for Constellation NewEnergy-Gas Division, L.L.C. (Constellation). Below are summary items from the Part II Application and a listing of the key items related to the fitness of Constellation as an Alternative Gas Supplier.

## **Part II Application: Waived Meeting with Constellation NewEnergy-Gas Division, L.L.C.**

Constellation originally applied for an alternative gas supplier license on August 31, 2005. Staff had requested additional information and inquired about a statement made on the application that Constellation only planned to continue serving transportation customers. Constellation investigated the retail gas choice market further and decided to move forward with an alternative gas supplier license. Constellation reapplied for an alternative gas supplier license through the Commission's e-file process on April 25, 2006.

Staff did not meet with Constellation representatives, which is normally the process for Part II of the Application. The purpose of a meeting is to review the application for the Alternative Gas Supplier. Because Constellation and its parent, Constellation Energy Group Corporation, are well established and have significant experience in electric and gas supply in both wholesale and retail markets, we did not meet with the company in person but spoke on the telephone and exchanged email correspondence.

Constellation NewEnergy Inc. has operated as a licensed alternative electric supplier (U-13660) in the Michigan electric choice markets since December 20, 2002.

With respect to Part II items of the Application:

### **Item 13 – Two years of financial documents.**

Constellation NewEnergy-Gas Division, L.L.C. is a wholly owned subsidiary of Constellation Energy Group. The audited financials are those of Constellation Energy Group and Baltimore Gas and Electric Company; Constellation NewEnergy-Gas Division is consolidated in those documents, which are public documents available on their website. These financials were reviewed by Staff. Constellation Energy Group Corporation, the parent company, has over \$17.1 billion in annual revenues.

### **Item 14 – Letter of credit or bond**

Constellation's letter-of-credit in the amount of \$100,000 has been presented to staff.

**Item 15 – Resumes or bios**

Resumes were not requested, but bios of the Michigan personnel were included in the application. We believe that the experience of the parent company, Constellation Energy Group Corporation, the current Michigan alternative electric supplier license of Constellation NewEnergy, Inc., and natural gas sales of retail and wholesale customers served by Constellation NewEnergy-Gas Division, L.L.C., in more than 35 states clearly provides the expertise in natural gas supply and in customer service to support operating as an alternative gas supplier in Michigan's gas choice program.

**Item 16 – Business plan/risk management**

Constellation personnel has sufficient experience and expertise to manage risk to reliably supply natural gas in Michigan's choice market, and this is bolstered by the expertise and resources of its parent, Constellation Energy Group Corporation. Constellation currently serves over 3,500 large commercial and industrial natural gas customers with more than 300 Bcf of annual natural gas consumption and over 12,000 megawatts of peak electric load.

Constellation Energy Group has a Credit Risk Management Committee that establishes risk management policies, review procedures for identifying, assessing, measuring and managing risks, and monitoring and reporting of risk exposures. This committee meets on a regular basis and coordinates with the risk committees at each major operating subsidiary, including Constellation NewEnergy-Gas Division, to identify, assess, and quantify material risk issues and to develop strategies to manage these risks. Internal evaluations of customer creditworthiness are performed and prepayment arrangements and letters of credit are used to mitigate risks.

**Items related to fitness: Constellation NewEnergy-Gas Division**

1. Constellation NewEnergy-Gas Division, L.L.C., is a Kentucky limited liability company under the Constellation Energy Group Corporation holding company.
2. Constellation NewEnergy-Gas Division, L.L.C., was established in December 2002.
3. Constellation NewEnergy-Gas Division, L.L.C., is supplying the retail market with natural gas and electricity to commercial and industrial customers in more than 35 states and Canada.
4. Constellation NewEnergy-Gas Division, L.L.C. is well qualified and has sufficient expertise to operate as an Alternative Gas Supplier in Michigan.
5. Constellation NewEnergy-Gas Division, L.L.C., has an established office in Fort Gratiot, Michigan.

Attachments: (1) Application; (2) Affidavit; (3) Letter-of-credit; (4) Michigan Corporation Division certificate to do business.

cc: Brian Ballinger with attachments