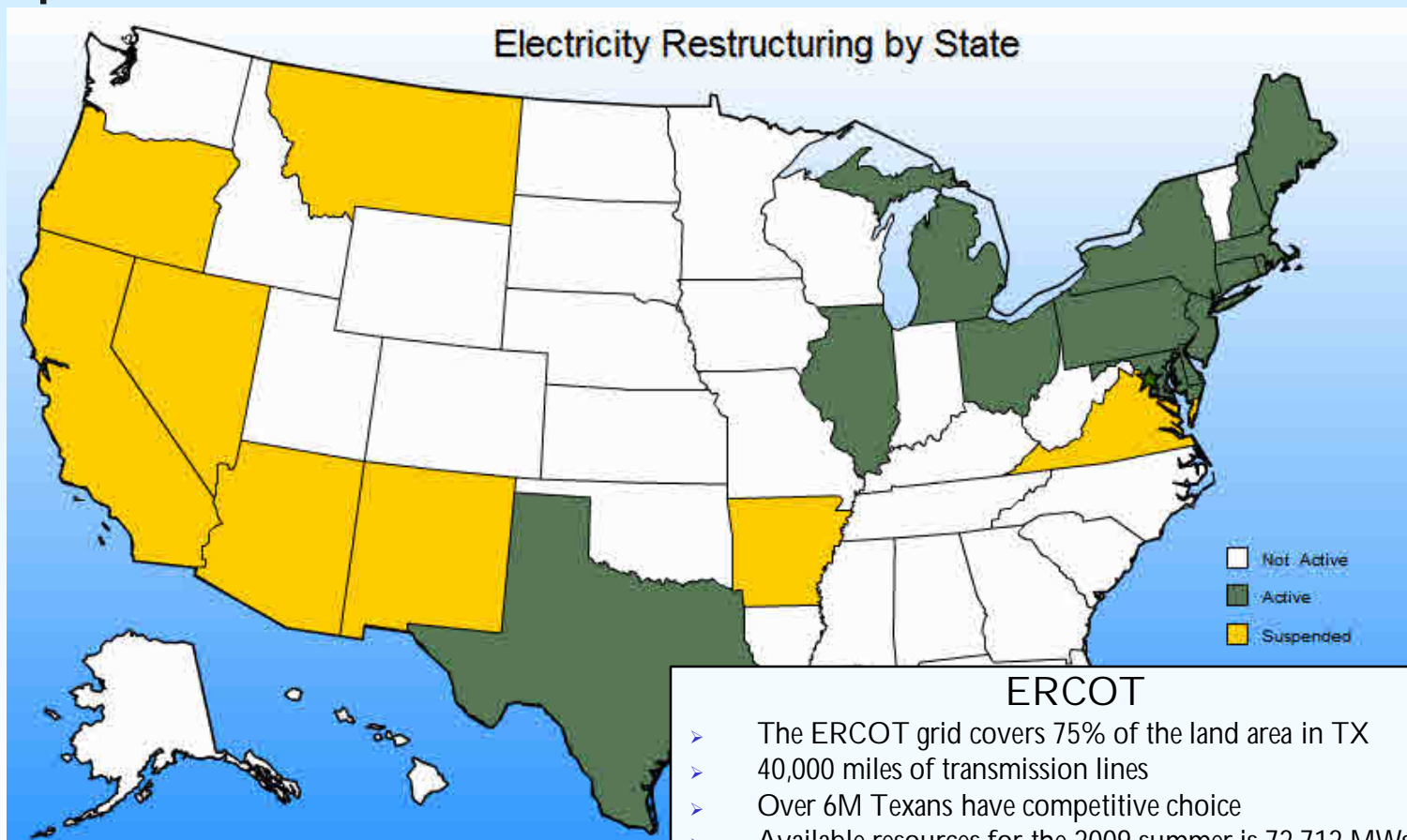


Overview of the Deregulated Marketplace

David Morrison

August 27, 2009

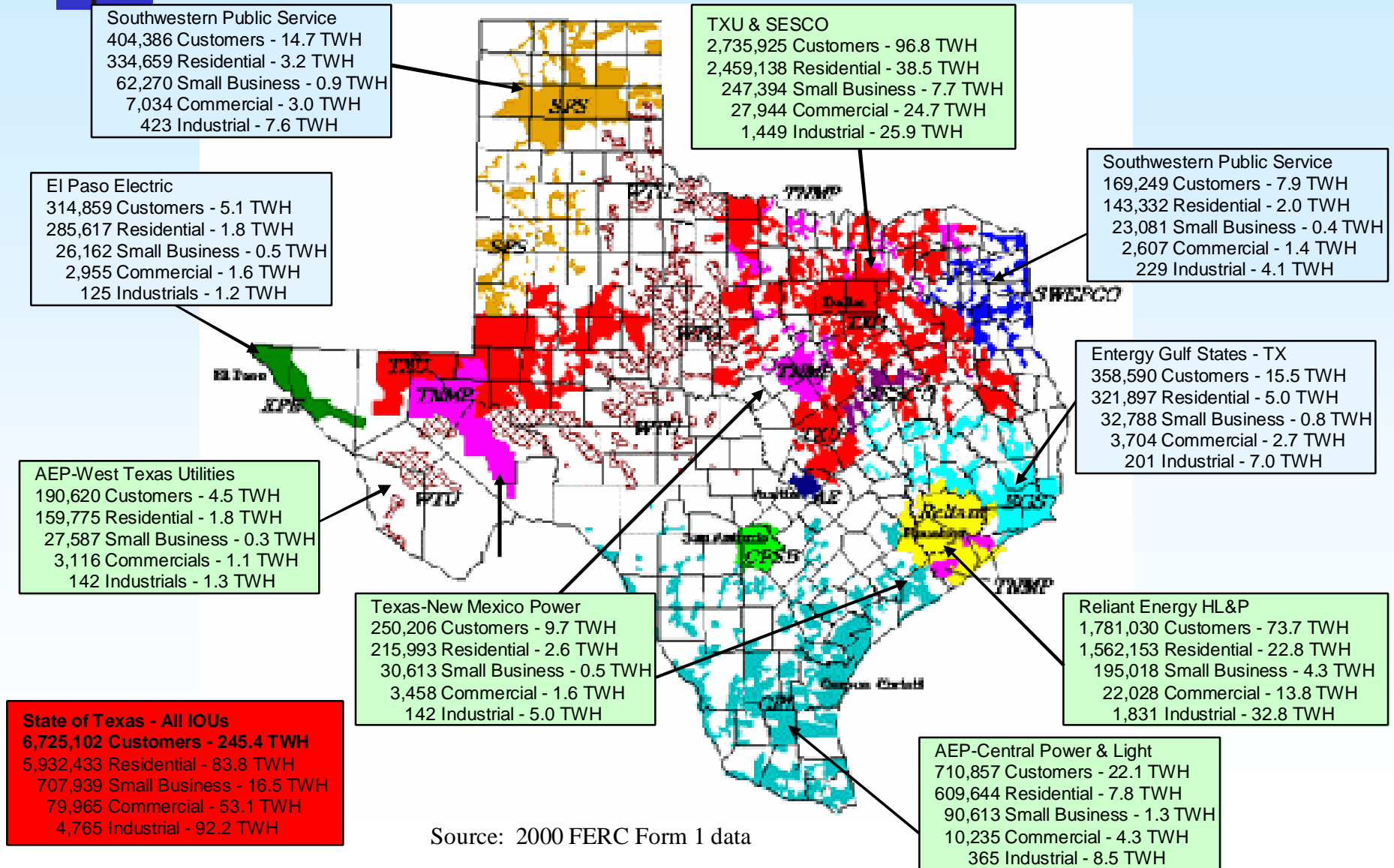
The Texas market is the largest and most active deregulated electricity market in the country



ERCOT

- The ERCOT grid covers 75% of the land area in TX
- 40,000 miles of transmission lines
- Over 6M Texans have competitive choice
- Available resources for the 2009 summer is 72,712 MWs
 - 16.8% reserve margin
- Summary of fuel types / summer 2009 capacity
 - 70.6% natural gas, 18.7% coal, 6.7% nuclear,...

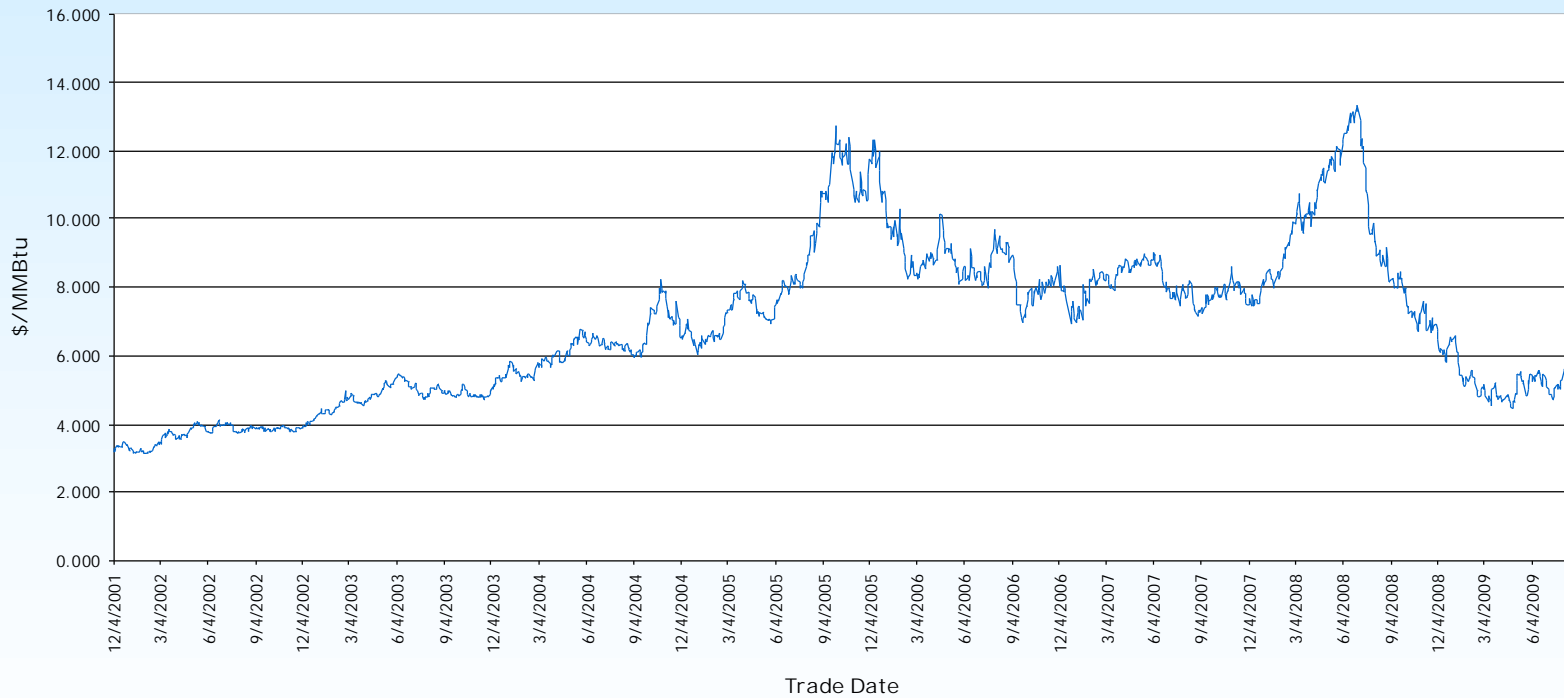
The Texas market offers more customers with more energy usage than any other open market



Source: 2000 FERC Form 1 data

The volatility of the natural gas commodity market impacts competition and REP (suppliers) profitability...

Henry Hub Natural Gas - 12 Month Strip

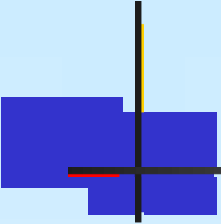


... and customer pricing!



The volatility in the cost of goods sold means that success is built on knowing every aspect of the market

- PUC
 - Market Mechanics
 - Rule Changes
- Market / Suppliers
 - Product Knowledge
 - Forward Price Curves
 - Knowing the Key Players
 - Terms and Conditions
 - Counterparty Credit Risk
- Consumption Data / Load Shape
 - Product Structuring
 - Forecasting
- Risk Tolerances
 - Identification / Understanding / Managing
- Timing



Retail commodity product structures and the impacts to suppliers and end use customers

□ Residential

- Fully Fixed
- Market Index (MCPE)
- Renewable

□ Commercial & Industrial

- Fully Fixed
 - Load following
 - Ancillary services
 - Losses
- Heat Rates
- Blocks
- Market Index
- Combinations

□ Implications

- Most suppliers will not target and serve all customer segments
 - Segmentation occurs by product type, customer type and size
- Customers must understand the inherent product risk and have internal buy-in from their risk management group to ensure their product selection matches their corporate risk strategy



Where does electricity deregulation go from here....

- ❑ Electricity deregulation has not been adopted across the country like **many had anticipated... Why?**
 - Underlying fuel cost have been extremely volatile over the past 8 years
 - Product selection and not understanding the underlying fuel cost structure has created some bad customer experiences
 - Some of the largest users miss not having the ability to take advantage of the utility economic development riders and special rate contracts
 - Making commodity decisions has been painful for many companies
- ❑ Electricity deregulation may never see another Texas
 - But then again, no other state has the market characteristics like TX
- ❑ **First Energy Corp's Ohio territory has deregulated within the past 6 months offering complete customer choice**
 - Ohio Edison, Cleveland Illuminating, Toledo Edison
 - Commercial customers are seeing an 8-12% savings from utility tariffs

....cautiously forward