

Predicting Retail Energy Market Activity



Spotlight: Maryland Wakes Up

As capped rates disappear this summer, the Maryland market will spring to life—or will it? Sky high wholesale prices encourage customer caution but suppliers have deals at the ready to cope. This issue, REF spotlights Maryland's market structure and activity, and estimates supplier market share.

As long noted in REF, Maryland will undergo significant reform this summer as a new, highly anticipated rate structure tips the balance to a more competitive market [see page 10 for sidebar on market basics]. BGE's Schedule P customers on market based pricing have long seen high switching rates since 2002, but come July 1 (and June for Conectiv), most

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Switching Trends: Hot and Cold Spots

Texas C&I markets are hot, even with lofty highs in wholesale pricing and regulatory overhangs while Michigan is lukewarm though still surprisingly viable. Winter is over, but retailers still feel the chill in Northeast markets. Retail energy will not disappear, no matter the fervent pitches of vocal sectors, as growing signs indicate a possible mini-revival in this decade.

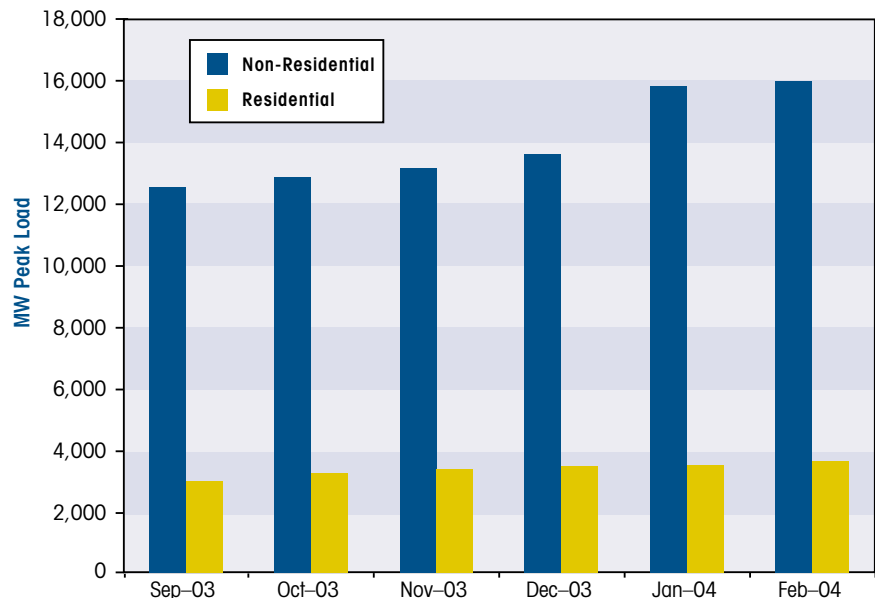
Texas: Bigger is Better

Texas has long led the nation in peak MW load supplied, but from Fall to Winter 2004 it picked up many long time fence-sitters who moved off economical Price to Beat (PTB) rates. The figure below shows peak MW load migration on the rise, particularly from December to January when non-residential load jumped from roughly 13,600 to 15,800 MW.

Of course, Texas also had problems at and around the market opening with billing and switching delays, but the kinks have mostly been worked out. With up to twice yearly utility fuel factor increases, no Competitive Transition Charge that cripples other markets, and varied and plentiful choices among products and suppliers, the Price to Beat (Texan speak for default service option) is almost

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Texas Peak MW Load Supplied by Customer Class, 2003-2004



never less expensive than competitive supply.

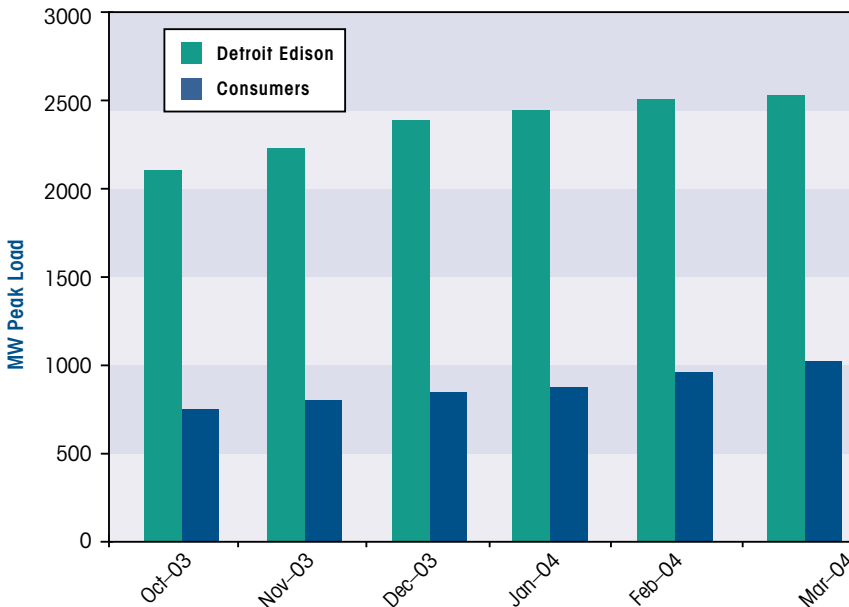
Since November 2003, business has been “crazy” and “extremely busy” according to several suppliers and aggregator/brokers, who report more interest in shorter and shorter term contracts (due to prolonged high wholesale prices). Longer-term deals are still in demand, depending on the customer’s risk aversion and tolerance, but these contract prices will rise, some significantly.

“We have customers coming out of contracts that we served at 4 cents/kWh and are now looking at 6 cents/kWh. It is very hard to tell them to sign another 2-3 year contract when the prices have gone up by 50 percent,” said Trevor F. Lauer, Vice President, Strategic Energy. He noted that customers are more likely to sign a 3-4 month contract and while they wait for the wholesale market to decrease (assuming it will) in the near term.

Despite high wholesale market conditions, brokers and consultants report savings for mid to large C&I customers averages at least 10 percent and “in the high teens” is common according to one consultant/broker, in both the TXU and Reliant markets. For example, a Houston area commercial customer, working through a broker, was quoted savings of 12.5, 16.2 and 19.1 percent for 1, 2 and 3 year fixed price deals, respectively, as of May 14, while another Houston area commercial customer moved off PTB to competitive supply in mid-May at a healthy 18 percent savings.

As of late May, CenterPoint (former Reliant territory) is more attractive than TXU Energy even though the latter requested a second fuel factor rate increase for 2004. “Because the TXU Price to Beat per kWh baseline is a little lower, the savings are not as great [as Reliant] at about 6-12 percent” for commercial customers under 1 MW, depending on load

Michigan Peak MW Load Competitively Supplied, 2003-2004



profile, size and other customer attributes, according to David C. Wiers, Vice President, Power Brokers, a consultant/broker. Houston area customers can save roughly 10-20 percent, he added.

Since reaching 40 percent small commercial switching in their incumbent territories, Texas AREPs (Affiliated Retail Electric Provider) are allowed to quote in-territory prices lower than the Price to Beat (PTB) and have already done so. However several insiders reported that two larger AREPs are quoting some deals at “uncompetitive” rates, declined bids on others, and are focused on PTB

customer retention while competitors chip away at their bases.

What is going on? One market insider surmised that these AREPs find it highly profitable to serve the PTB commercial customers and will wait for a sea change to more aggressively and competitively quote prices lower than the regulated PTB to small commercial customers.

However, in a recent analyst meeting, TXU outlined their aggressive approach to retain and reacquire small commercial customers. In addition, a Reliant executive confirmed several months ago that his company was

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April / May 2004



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quoting rates lower than recent PTB to small commercial customers, but declined to give specifics.

Michigan Sputters

From white hot to lukewarm, the Michigan market is “sputtering along” in the words of one retailer.

As shown in the figure on page 2, Detroit Edison territory migration has leveled off since a February Michigan Public Service Commission Order added roughly 13 mills to secondary and 11 mills to primary customers’ bills in Detroit Edison territory.¹ This sharply reduced headroom and put a significant number of customers “out of the money.” Market economics have not significantly changed in Consumers Energy territory in comparison, reflected in the figure on page 2 showing continued upward migration.

Suppliers are upset, as are many customers. Those who signed deals at 20 percent savings lost roughly 15 percent of that, while some are paying more than non-shoppers in Detroit Edison territory (due to removal of securitization and equalization credits; see footnote). We hear of letter writing campaigns, and the Customer Choice Coalition, a group of businesses and governments, is fighting for lost ground and electric choice survival while CLEAR, led by DTE, fights against it, using the media to voice their positions.

In an unusual move to address supplier and customer complaints, the Michigan PSC has granted a rehearing of the

1 A February 2004 Order by the Michigan Public Service Commission allows Detroit Edison (DE) to charge shopping customers a transition charge of 4 mills and took away equalization and securitization credits of 9 mills for secondary and 7 mills for primary customers that had created substantial headroom in the DE market. The Michigan Public Service Commission issued the February Order in response to DTE’s complaint that significant earnings losses were due to electric choice.

Retail Access Timetable

No dates have been set for additional market openings, but recent signs indicate possible brightness for retailers seeking virgin tracts of eligible customers. The table below lists states or territories that have made serious moves towards opening (or reopening) markets to electric choice.

State/ Territory	Market Opening	Notes
New Brunswick	October 1, 2004	Retail access for 39 large industrial customers. Delayed from April 1, 2004.
El Paso (Texas)	After August 2005 (uncertain)	Retail choice exception ends in August 2005. Texas PUC has an open proceeding to evaluate whether the conditions are conducive to retail competition.
Entergy Gulf States Texas	Uncertain	Opening delayed while market readiness is evaluated by the PUC. At issue is whether Entergy would be a part of the Southwest Power Pool or have an independent RTO structure.
California	Suspended September 2001. Reopening uncertain.	Core/non-core model under investigation (large customers only receive choice), and a March California PUC staff report listed 2009 as possible start date.
Arkansas	Under review	Legislature ordered the PSC to file a report by September 30, 2004 on retail choice for large users. 2005 market opening for all customers was canceled by state Legislature in 2003.

February Order. Mark Carosio, Vice-President–Sales, Nordic Marketing, (an independent Michigan-based supplier) conceded that the securitization and equalization credits are not likely to return, but called the 4 mills transition charge unjustified. The PSC staff came up with a number—between 2-4 mills—that the Commission adopted at the higher range, he said. “We still think that we will see a change, which will then be revisited in final DTE rate case Order expected in September.”

Despite setbacks, however, suppliers report continued sales, albeit at reduced levels. Detroit Edison customers still “in the money” are larger secondary customers with good load factors (gas stations, restaurants, etc.) and lower load factor primary accounts (manufacturing complexes, etc.).

“Lower load factor customers pay a pretty high rate, and we can compete

against that,” said Carosio. One prominent supplier estimated savings for secondary customers at roughly 10-15 percent.

Northeast Chill

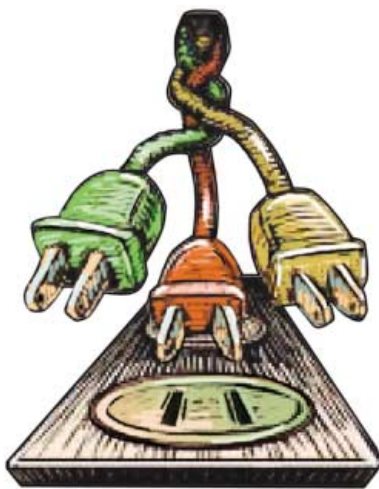
Boom-and-bust markets in Massachusetts and Maine have gone cold since wholesale prices are generally at or above current Default Service (DS) and Standard Offer (SO) prices. Both states are characterized by comparison to SO or DS, and at times that differential produces significant savings—it is a matter of timing.

For example, last Fall was a relative boom in Maine. Since then, the state has new SO contracts for medium-sized and large business customers of Central Maine Power and Bangor Hydro Electric that started March 1 and increased rates from 8-13 percent, but the wholesale market

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run-up put most customers out of range. These SO contracts are rebid every six months, and every three years for residential and small commercial customers. Massachusetts has a similar structure, with bids every three months for large C&I customers.

“We have a number of customers sitting on their hands waiting for an opportunity. The cycle will reverse at some point, the market will start down, and at that time there will be savings against SO and DS and customers will switch,” said Mark Isaacson, Partner, Competitive Energy Services.



Current Switch Rates

Current Cumulative Switch Rates by Percent of Total Load Served by Competitive Suppliers

State / LDC	Residential	Commercial	Industrial	Total	Report Date
AZ	0.0	0.0	0.0	0.0	02/25/2004
CA	0.6	1.2* / 14.9#	35.4	13.2	02/29/2004
CT	1.6		0.3	1.5	04/15/2004
CL&P	2.0		0.4	1.9	04/10/2004
UI	0.0		0.0	0.0	04/15/2004
DC / Pepco	12.2		41.7	36.0	02/01/2004
DE	n/a		n/a	n/a	04/24/2004
DEC	n/a		n/a	n/a	04/24/2004
DP&L	0.0		11.3	7.4	04/24/2004
IL	0.0	35.2	55.5	31.3	02/29/2004
AmerenCIPS	0.0	6.2	41.5	16.7	02/29/2004
AmerenUE	0.0	0.2	1.6	0.5	02/29/2004
CILCO	0.0	0.0	0.0	0.0	02/29/2004
ComEd	0.0	36.5	56.2	31.9	02/29/2004
IP	0.0	15.4	64.6	31.1	02/29/2004
MidAmerican	0.0	0.0	0.0	0.0	02/29/2004
MA	2.6	10.8* / 17.0#	48.3	22.6	02/29/2004
Fitchburg	0.0	0.0* / 8.2#	40.8	18.1	02/29/2004
NGrid	0.9	10.1* / 21.4#	57.4	23.9	02/29/2004
NSTAR	5.1	12.6* / 14.2#	43.9	23.0	02/29/2004
WMECo	0.7	7.2* / 12.5#	27.6	13.0	02/29/2004
MD	3.8		29.0	16.6	02/27/2004
Allegheny	0.0		0.0	0.0	02/27/2004
BG&E	0.0		32.0	17.0	02/27/2004
Conectiv	0.1		28.2	13.2	02/27/2004
Pepco	13.9		31.4	22.9	02/27/2004
ME	0.9	33.6	77.7	36.0	03/01/2004
BHE	0.6	26.0	55.0	22.0	03/01/2004
CMP	0.3	35.0	86.0	40.0	03/01/2004
MPS	13.0	77.0	99.0	53.0	03/01/2004
MI	n/a	n/a	n/a	15.9	03/31/2004
Consumers	n/a	n/a	n/a	8.9	03/31/2004
DTE	n/a	n/a	n/a	19.8	03/31/2004
MT/ NorthWestern	0.0		34.2	22.7	03/31/2004
NJ	n/a		n/a	14.9	Mixed
Conectiv	n/a		n/a	10.0	12/31/2003
JCP&L	n/a		n/a	13.6	11/30/2003
PSEG	n/a		n/a	17.3	12/31/2003
Rockland	n/a		n/a	4.4	12/31/2003
NY	5.2	25.8	43.8	22.5	01/31/2004
CHG&E	0.0	3.4	59.4	16.5	01/31/2004
ConEd	3.7	26.8	79.6	29.2	01/31/2004
LIPA	0.0	0.1	2.9	0.9	01/31/2004
NYSEG	6.0	31.9	64.8	26.0	01/31/2004
NMPC	6.4	33.4	34.8	23.9	01/31/2004
O&R	33.0	36.1	40.7	36.3	01/31/2004
RG&E	11.7	26.7	34.5	25.3	01/31/2004
OH	16.5	26.5	16.3	18.7	12/31/2003
Allegheny	0.0	0.0	0.0	0.0	12/31/2003
AEP	0.0	3.8	0.0	1.1	12/31/2003
Cinergy	5.1	21.9	23.7	16.9	03/12/2004
DP&L	0.0	19.2	60.9	21.9	12/31/2003
FirstEnergy	41.1	47.6	21.3	34.2	12/31/2003

*Small Commercial #Large Commercial n/a= Not Available n/o=Not Open

Current Cumulative Switch Rates by Percent of Total Load Served by Competitive Suppliers (continued from page 4)

State / LDC	Residential	Commercial	Industrial	Total	Report Date
OR	n/o		3.9	2.1	01/28/2004
PacifiCorp	n/o		0.0	0.0	01/28/2004
PGE	n/o		6.5	3.6	01/28/2004
PA	6.3	15.7	10.2	10.2	04/01/2004
Allegheny	0.1	0.0	0.0	0.1	04/01/2004
Duquesne	23.1	38.7	29.7	32.3	04/01/2004
GPU	0.3	1.7	22.6	6.2	04/01/2004
PECO	19.1	23.6	4.6	15.6	04/01/2004
Penn Power	0.2	0.1	0.0	0.3	04/01/2004
PPL	0.1	5.2	6.5	2.8	04/01/2004
RI	0.2		16.9	11.4	03/31/2004
TX	16.5		69.5	43.5	02/29/2004
AEP-CPL	20.2	62.7	n/a	n/a	12/31/2003
AEP-WTU	23.1	56.4	n/a	n/a	12/31/2003
Centerpoint	14.0	41.0	n/a	n/a	12/31/2003
Oncor	14.1	42.7	n/a	n/a	12/31/2003
TNMP	15.1	51.1	n/a	n/a	12/31/2003

*Small Commercial #Large Commercial n/a= Not Available n/o= Not Open

Notes on Reported Cumulative Switch Rates

State	Comment/Disclaimer
ALL	Switching refers to a customer receiving retail electric commodity from an organization other than a customer's traditional Local Distribution Company (LDC). "Switchers" include customers who either choose to purchase retail commodity from an unregulated affiliate of their LDC, or from suppliers not affiliated with their LDC (or in the case of Illinois those who choose to take the PPO from the host distribution company).
CA	Small commercial is defined as <20 kW, medium commercial as 20-500 kW, and industrial >500 kW.
MA	Massachusetts reports switching for small commercial and medium commercial customer classes separately. "Small commercial" is defined as <3 MWh/month; "medium commercial" is 3-120 MWh/month; and "industrial customers" is >120 MWh/month.
ME	Maine reports percent load switching at the distribution company, but not at the statewide level. Therefore, percentages at the statewide level are estimates.
PA	Statewide percentages computed by REF.
TX	Change in reporting, send email to sweber@kema-xenergy.com for complete footnote.



Switching Movement

States and territories that have seen increases or decreases since our last issue. (Relative changes).

Note: NJ and OH have not published new switching rates since the Feb/March issue.

What's UP



IL -AmerenUE	+77%
OR -PGE (C&I)	+28%
DE -DP&L (C&I)	+25%
MI -Consumers	+13%
NY -O&R (Residential)	+12%
MA -(Residential)	+11%
MI -DTE	+10%
IL -(Commercial)	+8%
PA -Duquesne	+8%
TX -(Residential)	+2%
TX -(C&I)	+1%
CA	+1%
ME -(Industrial)	+1%

What's Down



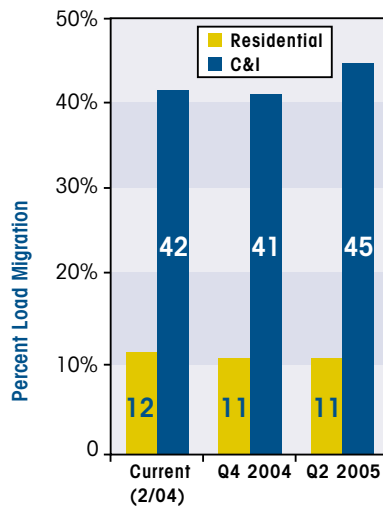
NY -NYSEG	-40%
CT -(C&I)	-33%
PA -GPU (Industrial)	-31%
NY -RG&E	-31%
DC -(C&I)	-23%
NY -CHG&E	-20%
ME -(Residential)	-17%
CT -(Residential)	-13%
PA -(Residential)	-11%
MD -Pepco	-10%
MA -(small C&I)	-9%
MA -(Industrial)	-7%
NY -(Industrial)	-6%
MD -(Residential)	-5%
IL -(Industrial)	-3%
NY -(Commercial)	-2%
MT -(C&I)	-1%

Bottom Line Predictions



This issue, REF predicts for Q4 2004 and Q2 2005.

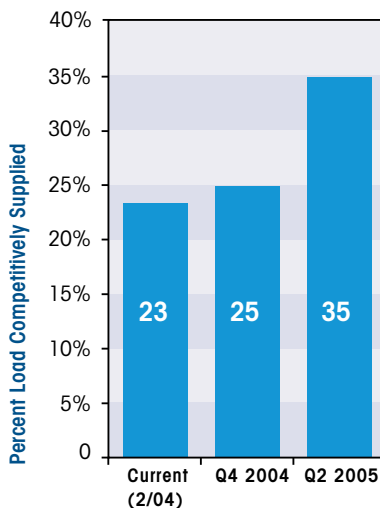
District of Columbia



- High wholesale prices make it difficult to beat the capped rate Standard Offer Service (SOS), but downward curve this Fall/Winter would propel switching.
- Major District player Washington Gas Energy Services has restarted new customer acquisitions, after a holding pattern of renewals only since Fall 2003 when wholesale supplier Mirant filed for bankruptcy [see Dec/Jan 2004 REF, p6].
- SOS expires in Feb. 2005, and PSC has decided on a post

transition wholesale bidding model to procure SOS for 1-3 years, depending on customer class. This may create MA/ME style boom and bust market conditions.

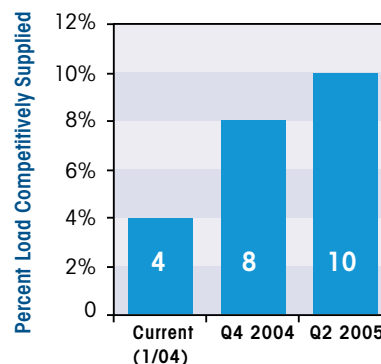
Massachusetts – Statewide



- Quarterly Default Service rates should have driven risk-adverse customers into fixed price competitive offers in larger numbers, yet wholesale market downward movement is needed.
- Standard Offer Service (default service for customers who have never switched) expiration for large customers in February 2005 and post-transition model (under discussion) will determine switching; could be vibrant or lackluster. REF takes the middle ground.

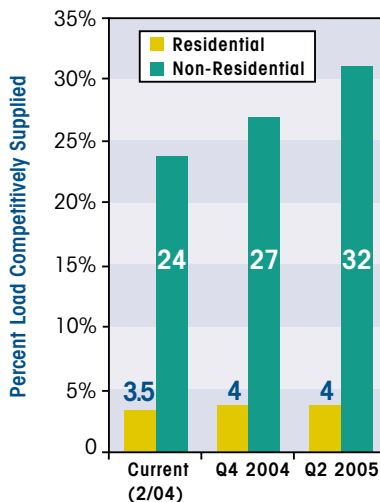
- One of the hottest markets in 2003 has gone cold, but we expect a slight bump in shopping after June 1 when (1) a small tranche of customers over 1,500 kW (128 accounts) will be subject to market-based pricing; and (2) \$0.5 cents/kWh retail adder for customers above 750 kW in (Fixed Price) class—formerly only for Hourly Energy Pricing (HEP) class customers; (3) some of remaining 25 percent non-shoppers on HEP class shops.
- Switching levels in 2005 will depend on NJ PSC decision for the next procurement process. Market pushes would include expanding the retail adder or lowering the threshold for customers on Hourly Energy Pricing.
- Municipal aggregation is allowed, but no progress to date or expected in short term to boost residential switching rates.

Oregon – Statewide



- A second window of shopping in Portland General Electric territory in May, combined with annual window in November, will push up migration rates.
- Pilot program in PacifiCorp territory will run one year beginning July 2004, limited to 100 MW peak load, but transmission constraints and costs will most likely prevent many customers from switching.

New Jersey– Statewide



customer classes will see hefty price jumps¹ that will breathe new life into the slumbering market.

The adjacent figure shows current and projected migration, and eligible load in peak MW. As of February 2004 (latest available data), roughly 28 percent non-residential load has migrated to competitive supply, and REF predicts that will jump to 40 percent as of July 1 when many deals start. Allegheny Power territory still registers zero migration as new Standard Offer Service (SOS) rates do not take effect until January 1, 2005.

The lion's share of deals start power flow in July, which is no surprise as customers want to stay on cheaper SOS until the new (and generally higher) rates take effect this summer. Residential migration is not expected to increase in the short-term although a wholesale market dip in fall/winter may attract more players and offers.

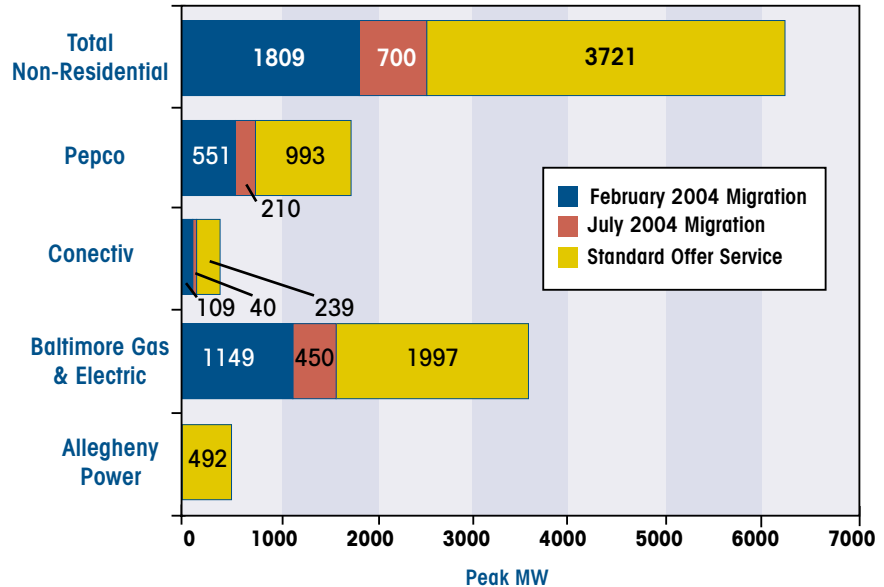
From a bidding process in February and March, the new SOS rates will increase up to 35 percent in Conectiv, and up to 30-35 percent in Baltimore Gas & Electric, and Pepco service territories (although some small commercial customers will actually see a decrease). With this shock to the system, some customers must be wondering, 'Hey, what happened here?' REF asked suppliers about customer grumbling and how to combat the misperceptions.

Brian Kick, Energy Market Manager, Reliant Energy Solutions responded,

I did get a couple of critical comments like 'deregulation is here, prices are going up' but that's the wrong story and only half the story. We always point out that four years ago the incumbent suppliers were required to sell off their assets, and

¹ BG&E and Allegheny Power residential customers will not get bid-based SOS rates until 2006 and 2009, respectively—see page 10.

Maryland Current and Projected Non-Residential Load Migration, 2004



proceeds of those sales were translated back to ratepayers in the form of rate freezes for four years. So [we tell] customers they have already benefited strongly from deregulation and that seems to resonate.

The new SOS prices may be going in one direction, but so have wholesale prices over the last 3 months: "Up, and up and up," said Kick. "I'm not sure what's driving it, but it seems to be going in one direction." This movement has deflated many supplier and customer expectations of frenzied shopping activity.

Richard Anderson, Managing Principal of consulting firm CQI Associates, voiced the fear of many shopping customers: "Their real concern is they don't want to sign long term contracts for high prices and then have the market go back to normal and lock themselves into high rates," he said. "That's a bigger fear than the new POLR rates."

Market Activity

As shown in the figure on page 8, non-residential migration levels have not yet shown signs of a vibrant market, except in Conectiv territory

where Constellation NewEnergy had been marketing virtually unchallenged in the Fall and early Winter. Pepco territory has even shown switching decline.

Given high, high wholesale prices, can this market be saved? Or is it DOA? No way, say suppliers REF spoke with, who claim to offer at least some savings off the new SOS rates, though in the single digits, and weighted heavily towards Type 3 (large C&I) accounts.

Energy consultant CQI Associates's Anderson said: "Most customers we're talking to, there is little value [to switch]. Perhaps only large time of use customers can get 1-3 percent off the new [SOS] tariffs."

For the supplier perspective Strategic Energy expects certain customer classes will save 3-5 percent in BGE and Pepco off new SOS rates and 5-10 percent in Conectiv, according to company Vice President Trevor F. Lauer, while Reliant Energy Solutions' Kick pointed to four recent deals in BG&E territory at 3 to 8 percent savings off the new SOS rates.

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Had the wholesale market stayed relatively level (or declined) after the utilities purchased SOS tranches, a much different picture would have emerged of vibrant activity. From the time the first tranche was purchased until mid-May, however, wholesale prices increased at least \$6/MWh.

But for now, Strategic Energy's Lauer surveyed the competitive landscape and said he has seen a "tremendous amount of customers sitting on the sidelines" for three reasons:

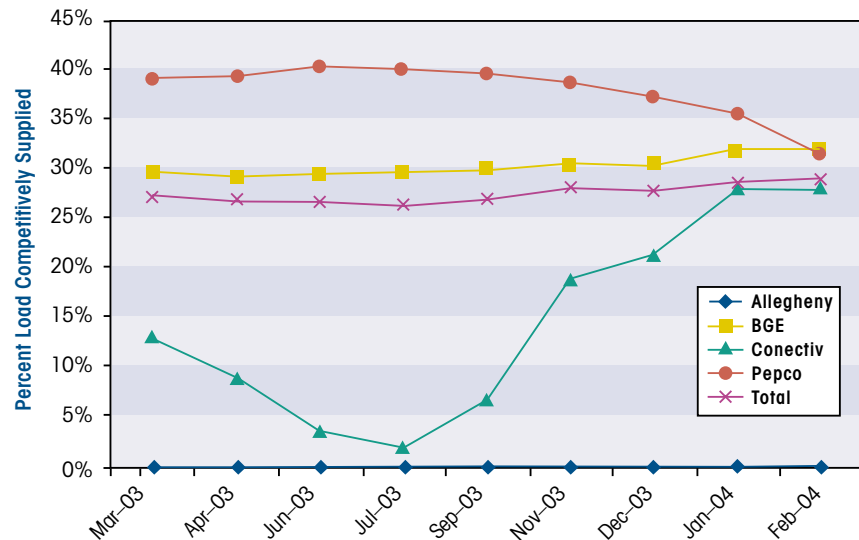
- 1) Standard Offer Service pricing was released (April 1 for Conectiv, April 28 for BGE, April 30 for Pepco), and retail suppliers are digesting and modeling the tariffs to determine actual retail price for customers.
- 2) A large number of customers believe that wholesale markets will soften and are sitting on the sidelines to wait it out.
- 3) Five mill retail adder does not take effect until July 1 in Pepco and BGE (and June 1 in Conectiv). "You're going to have customers in mid-August get their first set of bills, and realize they have extra half penny retail adder on them, and that should spur customers to move forward with shopping," Lauer said. "There's no pain for them to do anything right now, or at least that's the customer's perception." Lauer stressed that going into the summer months that customers should sign contracts sooner rather than later (when was the last time prices dipped in summer?).

Deal Making

How are suppliers responding to wary customers? Strategic Energy's Lauer said his firm is instructing customers to hedge during the summer months with a short term contract, and seek a long-term deal in late fall/early winter.

"We're cautioning customers that this

Maryland Percent Non-Residential Load Migration, 2003-2004



period of what we would call 'abnormally high' wholesale prices has existed for 12 straight months and it may exist for much longer so [customers] have to balance their internal risk process on what their decision is," he said.

But retailers must inherently work within the confines of wholesale price swings, and need to deliver value to customers in varied price environments. Most large suppliers will offer a portfolio of more sophisticated products (collars, index pricing, etc.) that make sense for the average consumer at this point, according to David Mitchell, Director of Business Development, Constellation NewEnergy.

The most optimistic voice was from Reliant Energy Solutions's Kick. "To the extent that wholesale prices are high, it makes beating SOS rates more difficult, which makes fixed price offers look less attractive. High wholesale prices do not help or hurt, but just govern what type of product we offer," he said, referring to other product structures and terms that offer more flexibility.

Suppliers

The table on page 9 shows Maryland non-residential market share estimates as of May 2004. As previously reported, most of the deals currently inked start

July 1 or June in Conectiv territory, (date varies dependent on billing cycle) with the exception of BGE's Schedule P customers that, as previously mentioned, have been on market based pricing since 2002.

Medium to large C&I customers—so called Type 2 and Type 3—may choose from among all the major and regional players: long-time PJM suppliers Constellation NewEnergy, Pepco Energy Services, Washington Gas Energy Services, and Select Energy, and relative Maryland newcomers Amerada Hess, Sempra Energy Solutions, Reliant Energy Solutions, and Strategic Energy. Reliant Energy Solutions recently hired another salesperson, and just in time for reinforcement as Kick reported the firm is bidding on 750 MW peak load in May.

Newly licensed in April and May include Liberty Power, Tractebel Energy Services, ConEd Solutions and American PowerNet Management, three of which are profiled below.

ConEd Solutions. The firm has a running start from its April license approval to sign a portion of a GSA government deal (shared with Reliant Energy Solutions). Several suppliers reported little head-to-head competition to date although a ConEd

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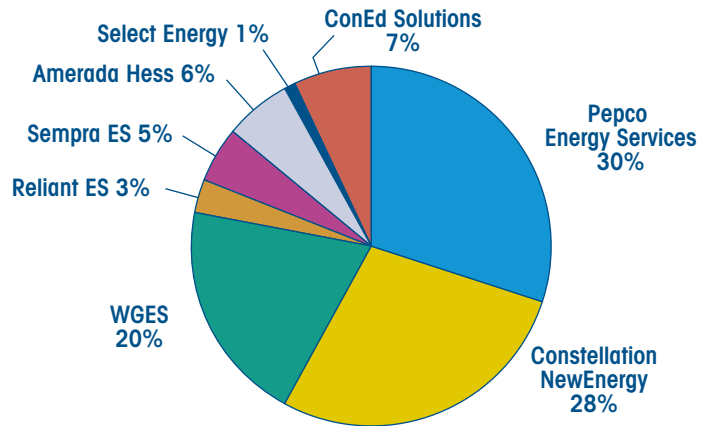
Solutions staffer was too busy to talk: “We’re overwhelmed—I gotta run,” he said.

Tractebel Energy Services.

Launched Maryland operations in May and expected to be a significant C&I competitor. Company will have dedicated sales reps in Maryland (“We’re hiring a couple of people,” says J.D. Burrows, Vice President, Marketing) and will leverage its existing customer base using its national accounts group, based out of Texas and the Northeast, that offers a single point of customer contact. Burrows called Maryland a niche market, not a “wide floodgates, go get everything you can get” type market for his firm, but had high praise for the market structure and has seen the combined elements (e.g. procurement, a retail adder) work well in other markets, like New Jersey.

Liberty Power. Anticipated June market entry. CEO David Hernandez said the firm will have a local presence, but has not decided between local staff or broker/aggregators. As of mid-May the company was “moving on both fronts”. The value proposition is low cost provider (“Jet Blue or Southwest Airlines of retail energy markets” Hernandez said), thanks to relationships with generation-backed wholesale suppliers. On pricing,

Estimated Non-Residential Market Shares, May 2004



Note: Market share estimates were calculated from the middle range of peak MW load in the table below. Note that these figures are estimates only, and do not take into account load signed for June or July start.

Hernandez said: “Absolutely, we can undercut some of the larger providers,” as the firm recently did on winning the city of Pasadena, Texas against several AREPs, and other heavy-weights. Niche in small-mid C&I and government accounts.

At eleven suppliers and counting, does this represent an unsustainably crowded playing field in Maryland? Tractebel’s Burrows thinks so. “It is fine for customers to get a one year contract with some small provider, but at the end of day it will probably be 4-5 major suppliers two years from now, and that will be it.”

Stampede to Follow?

Clearly, high wholesale prices relative to SOS will impede switching going forward, but consider that for market potential, a high priced Standard Offer is much better than lower priced. Taking the optimistic track, when wholesale prices drop, the floodgates will open. Should wholesale prices drop to Fall 2003 levels, suppliers and consultants would be working overtime to handle the deluge.



Maryland Non-Residential Market Share Estimates by Retailer, May 2004

Retailer	May-04	Source	Thumbnail
Pepco Energy Services	500-600	estimate	Utility affiliate with home court (BGE) advantage
Constellation NewEnergy	400-600	estimate	National C&I player and affiliate to BGE
Washington Gas Energy Services	300-400	estimate	Regional player serving Schedule P accounts
Amerada Hess	75-150	estimate	Hess oil affiliate operates in East Coast markets
Sempra Energy Solutions	75-150	estimate	Integrated commodity/services play
ConEd Solutions	50-100	estimate	NY utility affiliate licensed in April 2004
Reliant Energy Solutions (1)	0-20	survey/estimate	Texas-based retailer with PJM generation
Tractebel Energy Services (2)	<23	survey	Suez subsidiary with top 5 ambition
Select Energy	<25	survey	East Coast wholesale/retail utility affiliate
Strategic Energy (3)	0-20	survey	National C&I player won MAAGIC aggregation
Liberty Power (4)	0	survey	Independent multi-state (TX, NY) wholesale/retail play

(1) Estimated 250 MW peak load signed for July start; (2) May 2004 market entry; (3) 65 MW peak load signed for July start; (4) June 2004 market entry

Maryland Market Basics



Maryland receives high marks for its end of transition period decision that will lead to a more competitive market. Following are Maryland market basics.

Market opening: July 1, 2000.

Current Standard Offer Service (SOS): From 2000 to 2003 utilities offered SOS that was mostly based on rates frozen at 1999 levels. The exception was Baltimore Gas & Electric customers on Schedule P tariff who were forced to pay passthrough PJM wholesale prices starting July 2002 unless they switched to a competitive supplier. Over 90 percent of this customer class has switched.

Re-designed SOS: In 2003 Maryland radically redesigned its SOS to include a competitive bid process to determine both residential and nonresidential SOS rates. Under the new structure there are four types of fixed-priced or hedged SOS: Residential, Type I, Type II and Type III. Types I through III apply to non-residential customers and generally correspond to customer size via assignment of existing utility rate classes to a Type. SOS rates, terms and conditions will vary by customer class, but include three components:

Power supply component

- Four different price service types for each utility—Residential, small C&I, medium C&I, large C&I
- Hourly priced service only option for large C&I after first year
- For most service types wholesale suppliers bid prices for all rate elements of current retail rate design (includes TOU and demand rates as applicable)

Transmission component

- kWh usage (and, as applicable, demand) charges that recover in aggregate actual PJM network transmission and other charges specified as the responsibility of the utility

Administrative charge

- Ranges from 4.0 mills/kwh for residential to 6.5 mills/kwh for large C&I
- Includes return to utility and incremental costs related to SOS (uncollectables, service procurement and management, billing, etc.)
- Revenue in excess of identified cost items credited to all distribution customers (not just SOS customers) eligible for that service type.

SOS Bids: Results from an auction to procure supply to meet SOS requirements after each utility's transition period expires were announced in April. Bids for capacity to serve the SOS needs of each customer class were conducted through a multi-tranche process, with a maximum of four tranches for each customer class in each service territory. Fourteen wholesale electric supplier winners were announced, and the average of the winning bids for Residential and Type I Non-Residential (in ¢ per kWh) customers is listed in the table below (generation component of the SOS rate only).

Average Winning Bids (cents per kWh)				
Service Type	AP	BGE	DP&L	Pepco
Residential	n/a	n/a	5.16¢	5.04¢
Type I Non-Residential	4.93¢	4.99¢	5.38¢	4.95¢

New SOS rates: these will be phased in as follows—**June 2004:** Conectiv non-residential (date dependent on billing cycle). **July 1, 2004:** BG&E and Pepco non-residential; Pepco and Conectiv residential. **January 1, 2005:** Allegheny Power non-residential. **2006:** BG&E residential. **2009:** Allegheny Power residential.





April / May 2004

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The Last Word.

A regular REF feature is “The Last Word” in which industry veterans stick their necks out and make predictions concerning retail energy markets. If you want to try for 15 seconds of fame, send your pithy prediction (the more specific the better) to foresight@kema-xenergy.com.



“Additional markets will open if municipal aggregation picks up steam across the U.S. For continued industry progress, we need meaningful deregulation for the residential customer, which we believe means municipal aggregation. It is the ratepayers and consumer advocate that are listened to and can apply the most pressure to move competitive markets forward.

—Trevor F. Lauer, Vice President, Strategic Energy

Ten years from today, states that are not part of the competitive retail market will be scrambling to figure out how quickly they can get there. By then it will have been demonstrated that the deregulated marketplace is the most efficient. The fence sitting states will rethink, and we will see 5-10 more states—including some in the South—open by 2015.

—David Mitchell, Director of Business Development, Constellation NewEnergy

In two years, there will be 4-5 major suppliers in the Maryland nonresidential market, and that will be it.

—J.D. Burrows, Vice President, Marketing, Tractebel Energy Services

As customers' comfort level with deregulation rises, more shoppers will take an increased risk mitigation perspective and seek to lock in rates for longer periods instead of trying to time the market with six month or one year deals.

—David C. Wiers, Vice President, Power Brokers

I expect more local or regional suppliers to enter national markets over the next four years, increased consolidation as small players are swallowed by larger ones, and a wave of new entrants. Already we have seen Northeast suppliers enter PJM, and Texas players fan out across the U.S. Suppliers will also feed increased customer appetite for different products rather than just fixed or index deals.

—Richard Domaleski, President, World Energy Solutions

At least a half dozen more states will open in this decade as the risk aversion seen after the Enron [bankruptcy] fades. To keep existing companies within their borders and attract new businesses, states now use affordable energy as well as low taxation as two of their strongest economic incentives. This is a powerful motivator for regulated states to open to electric choice.

David Hernandez, CEO, Liberty Power Corp.