

*Transcript of
EnergyConnect Group, Inc (ECNG.OB)
Second Quarter 2009
Conference Call
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Participants

Executives

Rich Quattrini – EnergyConnect Group Inc. – VP Marketing

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Andrew Warner – EnergyConnect – Chief Financial Officer

Analysts

Lenny Bracken – Bracken Capital

Marshall Delano - Delano Investment Advisors

Dan Jones – Raymond James

Presentation

Operator

Greetings and welcome to the EnergyConnect Group Incorporated's second quarter 2009 financial results. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Rich Quattrini, Vice President of Marketing and Business Development for EnergyConnect Group Incorporated. Thank you Mr. Quattrini, you may begin.

Rich Quattrini – EnergyConnect Group Inc. – VP Marketing

Thank you Bob. Good afternoon and welcome to the EnergyConnect Group's Q2 2009 financial results conference call. I'm Rich Quattrini, Vice President of Marketing and Business Development for EnergyConnect. With me today are Kevin Evans, our President and Chief Executive Officer, and Andrew Warner our Chief Financial Officer.

After a brief introduction, Kevin will discuss business highlights of our second quarter and then Andrew will take you through our financial results. During this presentation, management may make certain forward-looking statements. These statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause or contribute to differences in actual results. Risks of forward-looking statements include, but are not limited to competitive factors, the success of new products in the marketplace, changes in the regulatory environment, dependence on third party vendors and the ability to obtain financing. By making these forward looking statements the company undertakes no obligation to update these statements for revisions or changes. A copy of our press release announcing



the Q2 2009 results is available in the investor section of our website at www.energyconnectinc.com. I encourage you to review our 10K filings with the SEC for a more complete review of the risks in our industry. With that I will turn the call over to Kevin Evans, our Chief Executive Office.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Thanks Rich. Hi folks, I just want to bring everybody up to speed on our second quarter, but also I want to invite everybody to participate in our slide presentation as well, as you may know, on our website we have a link to those slides. There is some delay between our showing sites here and what you will see, so hope you will work with me on the synchronization of that, but wanted to be able to take this opportunity to showcase a few of the developments here, in particular our software and I think the best way to do that is with our slide presentation.

So starting off, what we would like to deal a little bit is to make sure that we have articulated EnergyConnect's business plan. I think it does – it is important for us to identify that our primary mission is to establish the price responsive demand market. That goes back a number of years when we developed technology, but most importantly as we focus on that today and in the year ahead what we are really trying to do is build on a capacity market that we see using our product called Event Connect. I will be speaking a little bit about the progress we have seen in capacity markets and really in order to build the foundation of our business. The second piece is really are -- to leverage our technology, of FlexConnect, and that is really a technology primarily focused on PJM's economic market. We are very excited about some of the software developments we have there, and I will showcase some of that during today's call, and then lastly to be able to expand that technology platform to enable price responsive load management across a number of platforms in the RTS.

Certainly from a strategic goals standpoint, it is important that we focus on revenue and that is gross profit type revenue, profitable revenue that will in fact drive to EBITDA positives. This is also to look at an objective that we have and our goal to target a pilot program in the utility market that we think in particular ACT 129 in Pennsylvania is an opportunity to do that, and we'll give you more as that comes along in the quarters to come. And then lastly a broader goal really looking at being the catalyst in defining and shaping the overall price responsive demand market.

With that can we take a few minutes and update everyone on the progress that we've made in the capacity markets in the first quarter and the second quarter. So with that we have first the primary focus that we had is to in the first quarter, we booked some 20 MW of contracted capacity with market participants. Again this is recorded in our first quarter, and I want to showcase this as being an item that was new to our business. We had additional success in that same area and accepted 60 MW of contracted capacity in our markets and in Q2 and again that is a new piece of business for us overall.

Then the third element I think is an important piece which is really our typical ILR and other capacity businesses. What we saw in that area is the ability through the second quarter to have closed in excess of 275 MW of this direct commercial investor **power load** capacity. Just to give you a sense of the magnitude of that, well over 50% growth on our 2008 ILR business. We are very pleased about the progress that we made as a team. Folks have been really pushing on this one and we have done an excellent job in one, securing this business but then more importantly in booking of our customers in developing a successful test during the month of June. We are very encouraged by the test results. As you may know this is a requirement for the PJM program and those results have come in for us. We have some six tests across 245



customers, some 1300 contacts all but one facility, in effect a 99.5% participation in excess of 105% of our committed megawatts. So we are very encouraged by the results of our tests and working with our customers along those lines. The last gentlemen that we actually took that time to visit with our customers to check on them through customer satisfaction survey and want to showcase just briefly if I can some of the results on that.

Overall as we looked at it we had a reasonably high response rate from our customers in this area trying to give us feedback on our overall satisfaction, on our ROI testing of the events, both our communications profile testing as well as how to prepare our customers for this first test. One of the more exciting things in this area is in talking with our customers. We really have seen a strong response from that perspective and encouraged about their ability to not only meet but in fact exceed the committed capacity that they have talked about, so in effect by providing them with this practice experience if you will, during the test, we think it's been a great service to the customer, and involving them in terms of looking at how to participate in the energy markets as with our capacity size.

The next thing I would like to try and draw your attention to is really a very exciting survey that really is a piece of work that came out that was commissioned by FERC, it's really a National assessment of Demand Response. So what it tries to do is look out over the next 10 years in understanding what's the market opportunity for Demand Response. I think it is a very encouraging sign. What we see here in the graph is roughly today the overall peak generation interriding on 750 to 800 gigawatts. The expectation here would be that it would grow over the next 10 years to perhaps as high as 950 gigawatts, if we don't implement these kinds of very innovative new technologies in Demand Response. The very encouraging sign I would like to draw your attention to is our view in this case is really the blue line. We think it is a very reasonable case, will affect the achievable participation level, would anticipate that we could see a reduction in overall peak over the next 10 years of up to about 138 gigawatts.

Just to put some numbers that I have, one of the things we have tried to do is we said that say in megawatt is somewhere between \$25000 and \$50000. Then in this case 138 gigawatts is roughly a \$3.5 to \$7 billion market. So it really showcases that the order of magnitude that we are talking about here is extraordinary, that is the opportunity for demand response to have a dramatic effect on reducing and effectively beginning to flatten out to peak over the next 10 years. One of the important areas about this as well is that we dig into the numbers we begin to look the need for 138 gigawatts, what we see a large proportion of that is really dedicated to a new and emerging side of demand response which is price responsive demand. There is really two elements to this as we kind of take a look at the next slide. What we'll see here is that the overall pricing with and without technology and I would believe FERC was intending here was to really understand and explain that for demand response to be able to serve the need that are there for us, we really have to one, provide a new platform which is targeted at pricing as well as enabling that through technology so we believe that both rate structures in the form of pricing as well as assisting customers commercial, industrial and residential customers in the opportunity to understand those rate structures and certainly to be able to participate in those rate structures with technology.

We would like to then narrow the focus a bit if we could in looking at the economic side of things to spend a few minutes on PJM's economic response market. As you know, in 2007 and 2008 we have gone through a period of really trying to get the rules right in PJM. We will talk about this historically and it really related to looking at the



customer baselines, trying to understand how to perhaps temperature adjust those things, as well as understanding the kinds of screening and curtailment requirement that are necessary to really understand and add visibility to this new type of demand resource. We believe over the next couple of years both this year and next we are really trying to understand what is possible, and this is an important area where we are only focused on trying to engage our customers to really educate them about the market opportunity and to make it easy for them and that really comes to our technology side of things I will spend a few minutes on in just a minute now.

And then lastly, I think it is an important point to think of, over the next couple of years that our customers who were currently enjoying such prices are going to be exposed to the market volatility as those price caps come off and having tools like demand response become a critical technology for them. So as we see the years of 2011 and beyond that is really a question of is it real, is it predictable and can the grid really rely upon? We are actually very comfortable that between now and 2011 we will be able to develop the experience, expertise and educate our customers to enable the grid to rely on that kind of a new emerging technology.

I would also like to draw your attention on the next slide to a couple of points that really look at the economic market in PJM over the last couple of years. To give you a sense of this you can see sort of very active years in 2008. I would like to remind you that is coming off of the time when in fact there was a time an incentive in place that was taken away. This was a short note here. PJM has recently put out a press release that they believe they are going to make a filing in the next number of weeks that reexamine and the inbreeding production of at least some level of incentives in this market. We think that is an important factor overall to encourage customers to participate in this area, but we will stay tune and see how that comes through on the filing really in that area. We are very encouraged by the opportunity there.

To take a look at the historical perspective I think one of the key areas is we have seen some very high volumes, I would like to point out that EnergyConnect has been a long time player in this market, and been a very significantly holder of overall customer here with about 46% share over the last couple of years. You will see that while we had some rules changes along the way, we've tried to make what have seen certainly since the fall as really a low level of participation. We think that was largely attributed to the screen and also to begin to understand that unless energy prices have been quite low for a number of periods now. One of the things we would like to do is give you a little bit of a historical view of that, so on this next slide that we have is really a look at the five-day moving average of the real time LMPs. What we see in that area is real time LMPs saw a very strong spike throughout the 2008 period. Again a very active period for customers being able to participate in the market, but you can also see in the red zone here, excuse me the yellow highlighted area, a very low and unsustainably low record low prices in LMPs. We have see that since the beginning of the year and I will spend a little bit more time in providing some more detail on that, but I think that the graphic is quite evident at this time. A very low level of participation today largely because prices have been so low.

What we've tried to do on our next slide is really begin to give you some flavor of comparison for those kinds of numbers and so what we are trying to do here is really identify as an example the first numbers that target the western side of PJM through Comed. We see in this area I will draw your attention to the middle of the chart, we are in Q2 of 2008, prices over \$100 we saw 255 hours for price (audio break), so within the last year what we have seen is dramatic decline from 99% decline. So during the same period this year, Q2 of 2009 on the western side of PJM through Comed there were only three hours with the prices were in excess of \$100 and the



overall average price was \$26. So this gives you a real flavor for while the markets are very quiet and very slow today, today is the right time to fully focus on building, if you will, customer interest and understanding so that when prices do come back they will have the ability to participate in that.

I will also draw your attention to the eastern side of PJM, effectively the same dynamics that close. Prices look slightly different, but again overall traffic from 700 in excess of 700 hours over \$100 down to eight hours over a \$100 in Indiana, 61% decline in real time prices. With that what I would like to do is take a moment and showcase the new technology that we have released. We are very excited about it and think that our customers would really be able to find it much easier to operate using -- and participate in Demand-Response using our technologies. The early returns and talk with our customers are very excited, but what I want to try to do here is showcase a little bit of the difference between the old and new if you will. The previous user interface was very, I might call it a spreadsheet like. What we tried to do is go to a much simpler graphical user interface, much more dynamic with much more information for our customers on it. What our customers do with this new user interface is really begin to participate in looking at the overall procurement strategy that they have, so what our customers do in effect is first start off by developing curtailment strategies. They have the ability to not to identify a number of curtailment strategies and by doing that, identify the number of megawatts that they are going to curtail, as well as the time and days that they think they can curtail this. In establishing these curtailment strategies we believe our customers are ideally positioned to be able to participate in the market as prices move. Once we have our curtailment strategies then EnergyConnect goes to work in monitoring the markets for the customers, giving those customers special targeted prices and what we do when we identify price opportunities for customers, we actually see and then if you will, send them notification, so our price responsive signal in identifying the opportunity for customers to participate and enjoy that. You can see in this case the email type message that we would send out, we can also do it in a number of different protocols and text messaging what have you, but the ideal point here is that it is very easy for our customers to see and in this case in the middle of the day a very unique opportunity for them to participate in demand-response, and really having the opportunity to schedule, to look at an opportunity to schedule load and curtailment of that load. Once they identify this they can easily click on a link, that link will then take them to our new graphic user interface, they identify the estimated loads that they have, which you can see, this slide comes together. What we tried to do is put on one page the opportunity for our customer first off to understand their overall baselines. So if you will, the curve over the top is what we call a customer baseline. The green portion is really that part of the load which they believe they can reduce given the curtailment strategy that we put in place and also the hours they believe they can do that.

In addition one of the things that we try and do is also gives them the price forecast along the way. So what we are trying to do here is overlay the overall customer profile, low profile and match that with the forecasted prices that we see in the market as well as their overall price, so that we understand whether or not there is an opportunity for them to target hourly price forecast. So this new strategy you begin to see a **cover** that we are trying to deliver to our customers and really make it easy for them to graphically understand one, their load, and two, the electricity markets. Once they have identified that, what they begin to do is then look at that, understanding the schedule and the confirm the schedule opportunities that they have, they have the ability to flexibly adjust the hours and what have you, but really again from our standpoint the idea was to be able to position the customer, given their day-to-day needs, give them an opportunity to take a visit and look at this, identify and schedule



the hours, and then go ahead and submit schedules. Once they do that, as you can see, what our software will do is identify both the bill savings that they will realize from this reduced usage as well as the opportunity to earn money from participating in the energy markets for PJM. We believe this is a very important point of decision making that customers can easily understand the numbers if you will, or the values of their participating and they can adjust once in their business.

Once they do that, one of the important requirements that PJM has is that the customers confirm the activity that they have done, so we again we've designed the software in order to make that easy for our customers. As you can see on this screen the software really identifies the opportunity for each day. The curtailment that took place, the customers will then confirm their various curtailment strategies, will use this information nicely enough to begin to hone those strategies to be able to predict, if you will for customers, their ability to curtail load given their various system requirement and the like.

Our focus here with the technology as you can imagine is to really make demand-response easy, **(audio break 20:e05)** thereby to provide our customers with shadow settlement capabilities in effect to take care of back end struggles and profit requirements that PJM has. It provides settlement to PJM who will then provide settlement through to the customers, track their overall performance, and overall all this is a very easy mechanism if you will, hosted on a web service, protected by software passwords, no software to install, maintain, it is all really running on our hosted service.

With that what I would like to do is spend the last couple of minutes giving you a couple of ideas of what we have seen in terms of case studies to really showcase how our customers were able to save dramatic amounts on their energy bills. In this case we are on the case study of a corporate campus roughly 18 MW. Our customer's annual bill runs about \$4 million a year and through their participation in FlexConnect and the EnergyConnect, we are able to achieve over \$400,000 a year in savings. It equates to roughly 10% of their overall energy bill. Another example of a case study is a little bit more in the food industry. It really looks to a business that has a requirement to package and freeze vegetables. They have some ability to be flexible in the way and times in which they do that, so what they try and **(audio break 21:36)** we have done in this case is again they have frozen foods in storage. What we have here is roughly a 6 MW customer. Their overall focus is on FlexNet and their ability to save in excess of a couple of \$100,000 -- \$200,000 in this case or about 7% of their energy bill truly helps them in their overall energy management cost.

Last couple of pieces that I wanted to showcase were some industrial examples. We have got in a broad footprint in the industrial sector both in the cement plants **(audio break 22:08)** to have unique strategies all of which identify opportunities for us to be able to showcase the kind of saving that we have seen, so as you can see on this next slide, is really a **(audio break 22:20)** a 30 MW peak, ability to save almost a million dollars a year in focusing on being able to rotate their production activities and take advantage of this. So just a number of different examples of how this economic business, how the business of economic demand response can be leveraged and brought into the commercial and industrial sector.

With that I would like to take a minute and introduce our new chief financial officer Andrew Warner, who will be touching on our financials. I would also like to take this time to thank Randy Reed as our previous chief financial officer. Randy worked tirelessly and very dedicated and committed to us. Unfortunately Randy was not able to make the relocation down to our new headquarters in Campbell, so we have



identified a new CFO that is Andrew, Andrew Warner. I am very excited to have Andrew on board. I've previously worked with Andrew and know that he has got the experience, dedication and really talent that we need to bring in to strengthen the team overall at EnergyConnect.

Lastly, a couple of points I would like to make, really focus on some of the cost management that we have been targeting and that certainly come through the numbers that Andrew will talk about, we have really been focusing on rightsizing the headcount, target this positive EBITDA that we have been working towards, we are looking at – we took some very tough actions in overall salary reductions in excess of 10-25% in salary reductions across the team. We changed our compensation structure for our sales organization, and much more of a performance driven sales compensation, and we have also taken this opportunity to begin to incent our employees with an option program, so that they will share the same motivations and rewards that our shareholders will.

And than lastly we continue to focus on centralizing our overall activity by establishing Campbell as our headquarters, by developing a regional presence in Philadelphia, and then lastly beginning to avoid, if you will the home office and the distributed nature of our business, except for our sales force who are in fact in front of customers.

And with that what I would like to do is go ahead and turn it over to Andrew Warner our new chief financial officer.

Andrew Warner – EnergyConnect – Chief Financial Officer

Thank you Kevin. Turning to the trend of income statement, which the slide should be coming out in a moment, this basically shows the quarterly P&L from Q1 2008 to most recent quarter which is shown on the right hand side. As you can see from this the revenue in the second quarter was \$7.5 million. Revenues in the quarter were primarily attributable to activity in the capacity market. Looking behind that revenue number about \$3.3 million of the quarter's revenue resulted from a number of high gross margin transactions in the PJM and California capacity markets. We also recognized about \$3 million in revenue from other callable capacity. And this \$3 million in revenue reflects about 25% of the revenue mix that's culled from that further. Due to the high gross margin nature of some of our transactions in the PJM and California capacity markets, total gross margins remained in the mid 40% range in Q2.

Turning to the sales SG&A expenses we recorded \$2.3 million of expenses in the quarter which includes non-cash stock based compensation of \$245,000. And you will see on this slide how we have executed the planned reduction in expenses from over \$3.3 million a year ago to the current levels. These reductions in our head comprised primarily of lower headcount cost combined with lower cost associated with consultants. The total outstanding profit for the current quarter was \$930,000 and we recorded an EBITDA profit of \$1.25 million. Our net profit was \$601,000.

Turning to the balance sheet, cash including CDs totaled \$390,000 from July 2009. We increased our accounts receivables by about \$0.5 million during the quarter as a result of higher level of sales and the accounts payable in accruals increased by \$1.7 million. As you know we had in February we signed \$5 million loan agreement, we drew down \$2.5 million in Q2, in line with our expectations. As the demand of the debt amount on the balance sheet is presented net of a debt discount as part of the terms of that agreement.

Turning to the cash flow highlights you will see the cash balance fell by about \$411,000 in the quarter. This was made up of increase in the accounts receivable



and other assets of \$3.37 million offset in part by the profit for operations and increase in liabilities. I should also point out that we made a payment of approximately \$1 million in the quarter to secure some of our capacity transactions. Our net outflow of cash was \$762,000. We drew down cash against the net payable which is also the net movement to \$411,000 in the quarter.

And with that I would like to hand the call back to Kevin.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Thanks Andrew. Again I wanted to just circle back if we could in closing to really reinforce our business plan, as EnergyConnect is focused on establishing the price responsive demand market. Our focus initially is to build on the capacity market as a foundation and really take advantage if you will of our presenting insights and understanding the technologies in that area, to build the new FlexConnect technology, to shape it for the economic market that we see in PJM today, and then ultimately take that technology to a broader price responsive load management. We are doing that in driving revenue that is focused on **(audio break 28:38)** a couple of times now we are very excited about the opportunity to establish this new business model perhaps through the utility pilot, ideally I think positioned in the Pennsylvania area where we see ACT 129 an opportunity there. We are very excited about that and how we might help shape the demand responsive market and really introduce this new technology as a mechanism for load management.

With that I would like to open up the call for questions.

Operator

Thank you. Ladies and gentlemen, we will now be conducting a question and answer session. If you would like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the * keys. One moment while we pull for questions. Our first question comes from Lenny Bracken with Bracken Capital. Please proceed with your question.

Lenny Bracken – Bracken Capital

Well Kevin on behalf of the rest of the shareholder base I want to say this is the first professional presentation we have gotten on our earnings call, so I want to congratulate you. No knock to Randy of course, I think he has done his best to stream things out on the finances over the years. But to the point Kev, I wanted to ask you, can you just clarify what the involvement was in the ILR program, had it changed year-over-year? Thanks.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Sure. So if we take a look at last year again our ILR focus is primarily in the PJM footprint, what we saw in that was that last year, we were at 185 MW so over that – over the last year we basically built about 50% increase or 278 MW of ILR capacity. In addition to that there is also a very important point that I pointed out which as we talked about before, we enjoyed the opportunity in Q1 to participate in a 20 MW program, that 20 MW in the first quarter was followed by secondary opportunity in the second quarter for an excess of 60 MW, again a new capacity business that was booked.

Lenny Bracken – Bracken Capital

Was that included in the 278 or is it?



Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

No it is not. It is incremental, so overall if you want to try and best characterize our overall capacity, it is 20 in the first quarter, 60 in the second quarter and an additional 275 of ILR. The 275 again, to kind of walk through how we're going to treat that really in looking to the GAAP treatment of this, what we took was 25% or if you will, the month of June is one quarter of the performance period. So we took 25% of our revenue and then we expect to take the remaining three quarters of that in the third quarter for the remaining performance period.

Lenny Bracken – Bracken Capital

That is just for the ILR program, correct?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

That is correct.

Lenny Bracken – Bracken Capital

Okay. All right. That is great. With -- in our operating money, Kev, can you just outline what the needs of the capital to participate in the capacity market ever increasing? Can you just reassure your investor base that, you know, finances above and beyond what you are capable of access to is not necessarily a prohibitive factor in growing that business?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Well, I think it is to some extent a major opportunity to grow. The way that PJM trade capacity market, and there is some ongoing conversation about credit in those markets, but we really see as an opportunity to leverage the book of business that we have today, to use that and to get into the forward market as we did in 2012. But it is important to see that as we want to grow at accelerated rate that there is and will be a requirement to post credit, which frankly is a struggle for us. That is an area where we are not able to grow as quickly as perhaps the market opportunity is there, given our inability to post credit to bid into those forward markets.

Lenny Bracken – Bracken Capital

There is no ability for you to get around that?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

No it does not appear. To our understanding we are working through the stakeholder process and trying to look at that, we are trying to get those if you will, the credit requirements to reflect just the -- if you will, the penalties that would be subject to nonparticipation because we don't think that is a concern at all, but it is really the ability to grow exponentially is really limited by this ability to post, but today was \$27000 MW what was used as the credit requirement for the 2012 option in PJM.

Lenny Bracken – Bracken Capital

Okay. Just another subject and may be this is a stupid question, Kevin, there are markets in which there is not this mechanism for capacity or either price to get established, whereby your industrial customers cannot get reimbursed by and add to like PJM. Is your in thought that you put through in those markets you can use more of the traditional software model where you can actually allow your customers and special customers to curtail and still save money? To curtail demand, take advantage of the pricing scheme that your software introduces to them, but they don't get reimbursed. They just basically they are creating a savings, because they are swapping high electricity rates with old electricity rates and I understand you cannot get paid in your traditional way, but doing it more on a technology basis.



Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

I think Lenny I got a very important point, as we see, as I kind of look at FERC's assessment, over the next 10 years we are going to see a number of different models, I think, come into the marketplace. The important point here is that customers will need technology to understand the market volatility if you will, of electricity prices to understand how to track their own load requirements and to track their own load profiles. Those are all technology that we have today and so we believe that customers will find that there is value there, whether the customer be a direct customer that we would acquire or perhaps even a customer through a utility that also needs to understand price volatility and their use of electricity.

Lenny Bracken – Bracken Capital

And I think you were breaking up a little bit when you discussed the Pennsylvania utility opportunity. Can you just recharacterize that please?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Sure. I know there is an ACT 129 that was passed by the governor and it really calls for 4.5% of peak reduction in Pennsylvania in the year 2013. So what we are looking at right now is over the next six months, the Pennsylvania based utilities are all putting out RFPs in order to identify and target this market. We think that our technology in focusing on that area, have the opportunity to effectively deliver a lower cost solution to the market place by really paying if you will for performance, as opposed to paying very large standby settlements which the customers are more traditionally used to.

Lenny Bracken – Bracken Capital

Okay and is that the only state which has that kind of opportunity or?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

I think today that that is the case, but we are actually starting to see quite a bit of movement in this area. So I think we are going to see and certainly that is the one we are focused on because within PJM I think Pennsylvania has some real leadership there that were also actively looking at programs in Maryland as an example. Maryland had a very interesting and effective rate program, what they refer to as a peak rebate program. So again very much like the kind of models we are looking at where you would reward a customer for curtailing of their baseline as opposed to the traditional penalty if you will penalty based system from a capacity program that the utilities are used to.

Lenny Bracken – Bracken Capital

Okay I will get back in the queue, Kevin. Thank you.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Yes, thanks Lenny.

Operator

Ladies and gentlemen, as a reminder if you would like to ask a question you may do so by pressing *1 on your telephone keypad. One moment while we pull for questions. We have a question coming from Marshall Delano with Delano Investment Advisors. Please proceed with your question.

Marshall Delano - Delano Investment Advisors

Thanks, Kevin, can you hear me okay?



Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Okay Marshall, thanks. We have got a little bit of breakup in the line here. I apologize for that.

Marshall Delano - Delano Investment Advisors

That is okay. It seems to me and I guess this is a pretty self-evident question, but if you had \$20 million in the till right now in cash, your stock would be trading I think around \$3-\$5 dollars a share, so because the big issue over the stock it seems to me is financial viability issue. Is there any way to address that through some kind of licensing agreement with say a large company?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

I think there is a number of opportunities that we see and one of the things we have been trying to do as you know Marshall, is focus on developing the technology, learning to live on the diet of cash that we do have available, so we are very encouraged by the progress we have made in that area and the strength of our capacity programs, but I think if we look to the technology, I really view EnergyConnect's opportunity as really to leverage that technology, whether we sell direct to customers or we sell through other people who own customers who have relationships. The important point here is how do we make this concept of demand response available to customers. How do we do it easily without kind of dragging them through the complication of establishing what their baselines are and how to transact with the PJM, those are all things we have built into the software and are very open to working with others who have customers that they want to bring to the energy markets that we see developing in PJM.

Marshall Delano - Delano Investment Advisors

Thanks.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Okay.

Operator

We do have a followup question coming from Lenny Bracken with Bracken Capital. Please proceed sir.

Lenny Bracken – Bracken Capital

I am at the same question Kev, can you just describe what your cash position will be. I would assume you are going to generate cash given the amount of receivables you have than the amount of business you have in your backlog. Is there any chance of actually paying down the net debt that you borrow?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

As you know Lenny we don't provide any sort of forward guidance but I think that we are very comfortable with the cash balance that we have. In effect the loan utilization that we have, I will point out that PJM has moved to a weekly payment system which actually is very advantageous for us, in effect they passed it through us, but I think what we want to try and do is look out not over the quarter, but really over year-over-year and what we really see is the ability to work off the line that we have, to work with that line, but at the same time to ensure that we are pushing the business forward. So we got to drop the line, but again we will see how the quarters develop. But quite frankly the thing that concerns me most is the -- how long will the economic business stay weak and to the extent that we begin to grow that, whatever cash flow that will flow off from the economic business.



Marshall Delano - Delano Investment Advisors

If I look at that back historically you know the utility rates are extremely low, they have never been as low since maybe I suspect in the 90s, is that the perspective that you have and you know a \$100 rate which I think is the magic number that you would need to actually see a pick up in that business. That is not unusually high number, it seems like a pretty reasonable number if you look back at last 10 years, can you just comment on that and is there anything you can do in terms of that business to, besides the incent that you commented on from PJM to actually see a pickup in that business if and when prices don't get back there?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Right, I think there is an important – I think your point, Lenny, is do we pretend to think our crisis in excess of let's call it \$25 above a customer's megawatt price, so what we are kind of using as a benchmark \$75 so I think that ties into the \$100 an hour that we tend to use and look at it clearly, slightly different in the western PJM versus the eastern PJM, but I think as a benchmark it is the right place to be. So what we have tried to do is showcase that the prices we do see here are in fact record low, certainly in recent times and that is likely to continue, I think for some period of time, loads are very low relative to historical periods. Certainly gas prices remain very, very low, so the indicators I think and some of the inputs that I have heard from the market and other utilities that they expect to see a 2010 loss of the **EBITDA** and I think we have to make sure that we are positioned for the long term in this regard, so we do think there is an opportunity to participate. It is one of the reasons we want to encourage the incentive, because right now as you can imagine a customer spending at \$75 an hour for a MW, when in effect the utility prices are beneath that if you will, the wholesale prices are \$20 or \$25. But this is a real challenge, you got utilities, in effect the lower serving entities enjoying, if you will the \$75 an hour from their customers while in effect they are paying on the back side of it, I think as we look at plan pricing, whatever we have seen in the marketplace we need to educate customers how to do that, but they would be able to participate in today's world that they would be able to enjoy this lower rates instead of having to pay their artificially high fixed prices.

Marshall Delano - Delano Investment Advisors

When will the incentive be decided upon?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

I believe the way it goes and I am not exactly sure, but I believe they have an expectation that PJM will file in the next week or so, based upon that I believe is a 60-day review period. There is a 21-day comment period that we will participate in and certainly trying to provide demand response perspective here, which is an important component to pay customers, the full LMP the value that they bring to the grid by reducing the **pat** demand, as it has a dramatic effect on overall lowering the cost of electricity and therefore they should be paying for the full LMP to customers for reducing load.

Marshall Delano - Delano Investment Advisors

So I am sorry, in the next 60 days they will decide?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

I believe that is correct.

Marshall Delano - Delano Investment Advisors

Before you joined, Rod was in the process of upping renegotiating contracts so that the margins were in the teens and in that business anymore, in assuming the incentive goes through, which is a reasonable assumption, where will margins be for



you guys in that business. We have not done any matrix in terms of the you know customer signage in probably six months, so I do not know where that business is. Can you just comment on where you think normalized margins are given that maybe some of your customers have been renegotiated and re-signed?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

As you know we don't try and provide forward looking margins and the like, but I think it is important to understand that certainly as we talk with our customers, as we train them on the new software, as we try and provide if you will a value proposition for how they can easily participate with us and how we will identify as many opportunities as possible, we believe that the service is a valued event but it is not commodity based type pricing but that said, I think the market dynamics are yet to emerge. We suspect that as the economic market does come back it will become very competitive, that people will be trying to take advantage of the new incentive and certainly we need to be responsive to market activity, but I think that the lead here is to leverage technology to provide customers with more value than simply a transaction if you will which is perhaps how we might have treated it in the past.

Marshall Delano - Delano Investment Advisors

I mean suffice it to say you are taking a line in the stand unlike Rod where 15 -- 10% to 15% gross margins are unacceptable for the level of technology that you are providing. Is that correct?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Yes, there are a couple of components to that, I think, one how would we want our establish that line of stand, certainly to ensure that we are targeting profitable business. We cannot do business for the sake of doing business. We really have to be mindful of the gross profit and then the contribution that makes to our EBITDA. So if we tighten up our cost structure I think it positions us so that we get a fair bit of leverage out of new **balling** coming into the business because our fixed costs are in effect covered by the capacity business, but that said I think we are just uncertain as to how that market is back and how does that exactly deal with competitors we see there.

Marshall Delano - Delano Investment Advisors

As long as you have that perspective I am more comfortable given the actions taken in the history here at the company. One last question in terms of partnerships, I know you are very conservative, you don't generally comment on anything that is not signed and delivered. Can you just give us some hint at what you are working on to pull your technology more so into the market place through partnerships or potential distribution methods that you have discussed?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Sure I think there is a number of things that we are trying to explore, and I think importantly is to identify what we are good at and what we are not so good at or what we can and cannot afford to deal with. I think the model of acquiring a lot of customers with a large sales force is the model that frankly we don't have the luxury of participating in. So we will look to a partner with entities that have a large customer base that needs access to these markets particularly if they need access to the economic markets and frankly the technology necessary to support their participation in that, the same is true I think if we begin to look at how do we add more technology to it. How do we begin to understand this if you will that this pricing is not just the people but to actually ultimate price that will create the curtailment, so we are looking to really understand how our technology might support the platforms of the billing automation outside of the equation and then lastly we have targeted, more importantly



really at the top of our list is really to identify utilities that we can locate our new technology and the approach that we believe is an important differentiator in the marketplace for demand response.

Marshall Delano - Delano Investment Advisors

Do you think the utilities now view you as a partner versus competitor, I mean, in the past it to me has been equality?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Yeah, I think the -- fortunately our conversations are not just ourselves, but I suspect the entire CST community, is enjoying a different relationship. One of the things under ACT 129 is that the utilities have this requirement to drop their load, but they have to do that through nonaffiliates, so they are very openly reaching out through RFPs and designing programs, where they would use the likes of the curtailment service providers, it is actually referred to as a conservation service provider in the ACT, but they are really leveraging if you will new resources that they have historically never done.

Marshall Delano - Delano Investment Advisors

I cannot wait to hear a little more progress in that effort. Thank you.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Thanks Lenny.

Operator

Ladies and gentlemen, if you would like to ask a question you may do so by pressing *1 on your telephone keypad. One moment while we pull for questions. We have a question coming from Dan Jones with Raymond James. Please proceed with your question.

Dan Jones – Raymond James

Hi, Kevin.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Good Dan, how are you.

Dan Jones – Raymond James

Fine thanks. I came on a little bit late, so I apologize for that.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Sure. No problem.

Dan Jones – Raymond James

Wondering if you could give a quick brief summary of the vision going forward as to what your goals are and where we are headed?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

I think the kind of a near term will continue to focus on really building and executing on the capacity market, to really establish our foundation for the business, we think there is a good market opportunity given prices, we see certainly that strengthening in PJM over the next year as those prices also kick up. And so we see that the opportunity if you will, will leverage the capacity market in the near term as a fundamental for creating a foundation for us. Second point is then to continue to leverage the technology, the investments that we have made to date as well as future investments we will make in automating the technology to make it easier, interface more quickly as



well, and kind of a follow on to that to really broaden that to a broader technology platform really not just focused on just the economic market but how might customers participate in load management, how might they participate more during the trough as well as not just helping the peak. So we think there is a real opportunity for demand response to go beyond just below drop and really to load management and we think our technology can support us in that effort. The other thing we have tried to identify for the investors with our goal to focus on driving profitable growth to achieve our sustainable EBITDA positive, we are going to do that and looking at also identifying utility **pilot** and then lastly to really help and shape the new, what we see as an emerging demand response price market.

Dan Jones – Raymond James

Well, thank you and also I saw at the end a presentation, is that presentation viewable on the site?

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Yes, well I will make sure it is loaded today it is accessed through the web, it will also be loaded on the site so that everybody has it, and one of the things that came up as I spent some time visiting shareholders and the like, is really a sense that we needed to kind of put some of this together to be able to get somebody to articulate our vision a bit and give everybody a sense of what that is, so we will put this on the site and then begin to try and outreach a little bit more and make sure that we are keeping everybody up to speed with what's going on here.

Dan Jones – Raymond James

Great. And good job in managing the numbers, they are starting to look good. Keep it up. Thanks.

Operator

Ladies and gentlemen, as a reminder if you would like to ask a question press *1 on your telephone keypad.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

So Bob we are getting close to the end, so why don't we just go ahead and if I can turn it over to Rich to close out the call.

Operator

Okay. There are no further questions at this time. I would like to turn the call back over to management for the closing comments and remarks.

Rich Quattrini – EnergyConnect Group Inc. – VP Marketing

I'd like to thank everyone for the interest and participation in our results conference call, especially Marshall, Lenny and Dan for the great questions. I would like to announce the dates for our third quarter call is November 10, 2009. Thank you everybody, have a great evening.

Kevin Evans - EnergyConnect Group Inc. – Chief Executive Officer

Thanks everybody.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.