

EnergyConnect, Inc. ECNG.OB Q3'09 Financial Results Transcript
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Host: Ladies and gentlemen, welcome to today's conference. Thank you so much for joining us for today's third quarter 2009 investor update.

Before we get started, I would like to explain some of the ways you can participate. This presentation is being recorded and you are currently in listen only mode. You can communicate with your event manager today using the feedback menu in the top right corner of your console. At this time, please locate your feedback menu and change your color to yellow by clicking on the drop down menu. By doing this, I will know that you can hear my voice and that you are ready to continue. Great, thanks to those who are responding. If you could now please turn your feedback back to green, we can go ahead and proceed. We encourage you to participate today during live our audio question and answer session. That Q&A session will take place at the end of today's presentation and further instructions will follow at that time. If you would like a full screen view of today's presentation, click on the full screen icon in the bottom right corner of your screen. To return to your original new, click on the full screen icon again and select normal view. You can also use F5 on your keyboard to toggle between those views. If you do experience any other technical difficulties during the event, please turn your feedback color to red and expect a one to one chat from me to resolve your issue or if you have issues with the audio, you may simply press *0 to be connected to customer care. Thank you for your patience as I pause for just one moment to insure that our recording is set.

I would like to introduce today your presenters, Mr. Kevin Evans. Kevin is the President and CEO of Energy Connect and your second presenter today is Mr. Andrew Warner, CFO of Energy Connect.

Now, without any further delay, I would like to turn today's third quarter 2009 investor update over to your first presenter, Andrew Warner. Andrew, you now have the floor.

Andrew: Thank you, Kathy, and good afternoon everyone. I'd like to start by making a few comments on forward looking statements. This presentation may contain 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 on the ability to obtain financing. By making these forward looking statements, the company undertakes no obligation to update these statements with revisions or changes. And with that I'd like to hand the call over to Kevin.

Kevin: Thank, Andrew. Welcome, everybody. I'd like to kick things off here for our third quarter and just talk a little bit about we've done some additional work in our

business plan and want to begin to communicate with the investors about that. So as we've said in the past that our focus is really on being a technology enabler in a price responsive demand. We really see that as our role as to one, to start to leverage the capacity markets that we see today that are available to us and we'll talk a little bit more about that in our performance in the third quarter. I'm very encouraged by our build and capacity business during third quarter. We'll also be talking a little bit about how we see the opportunity to enable the price responsive demand market referred to as the economic market in PJM and the incentives that are coming in place there. We want to continue to focus on high value customers. That's typically in the commercial industrial side of things but we'll also talk about how we're going to shape our energy platform and then focus on beginning to expand our business partnerships across a number of new participants.

One of the things that we want to do is really focus on making sure that we're delighting our customers. I think what's important here is that as we see the opportunity today in PJM, we know it will begin to develop and create a relationship with partner as well as utilities and it's as we target these pilots, we think it's very important that we have the time, the energy, the effort to focus and insure the success of these pilots.

The last part of our goals are really to focus on implementing a new pricing model. That's really one that targets the price responsive demand opportunity that we see as we've talked about focusing on utility and large customer pilots and the price responsive market. Continuing to develop the platform of software as a service, in demand response, and then lastly provide leadership to the industry overall as it relates to ability to manage load with price responsive demand. To give all of our investors a good sense of where we are today in our technology and our ability to compete in a number of different markets, it really looks to the opportunity that we see today in the capacity market as we talked about this has been an area for us to focus on this year. We've done a good job in building our platform there. we've also spent an enormous amount of time in taking our price responsive technology and we'll talk a little bit more about that in depth. We see there's tremendous opportunity in the coming years in that area and then lastly beginning to really look at and work with some of our highest profile customers and frankly our most sophisticate customers and enabling their opportunity to participate in the ancillary services markets. So today I think the message that I want to make sure that we're communicating is we have an effective platform for all three of these markets that we see developing over the next number of years.

With that, let me speak a little bit about our capacity progress this year. As you know we've reported both the first and second quarter capacity transactions that helped us quite a lot in terms of getting some business booked through the first half of the year but then what we really saw through the remaining part of this second quarter and now into the third quarter was the upside that was based upon the build that we had in our up to over 275 megawatts of direct commercial and industrial capacity. That's about a 50% growth over our last year's results in that area. As you know, we talked about the test that we performed, we had very good test results and as it turns out, it was a very mild summer. There was no events throughout the platform and, therefore, we were able to just leverage

our test results in providing if you will the necessary performance to insure full payment to all of our customers as well as to ourselves.

Then lastly, as we've talked about in the past, we've continued to have very good customer satisfaction feedback. They've been very appreciative of the work that we've done with them in trying to help insure their opportunity to maximize their payments for their capacity transactions this last summer.

With that, let me talk a little bit more about the PJM model. It continues to evolve and we're very encouraged by some of the things that we've seen. I've spoken to this in the past in terms of a 2007 and 2008 period. The period of really trying to get the rules right and I think we can still see some other things that are taking place today in 2009. Our focus has been on really re-engaging and focusing on making it easy for our customers to participate in this market. A number of our customers are facing price caps off 2009, 2010, and 2011 and they'll need to have demand response opportunities to insure that they can manage their overall cost of electricity and then, lastly, one of the things I want to bring people up to date on is really where we are on the PJM filing. In effect, their request to reinstitute the economic incentive in 2010. And then lastly, we'll talk more about kind of what I see as really being a period of 2011 and beyond for a full scale rollout of the economic price responsive programs.

To take a look back in history a little bit, this is to orient everyone. This is really the quarterly activity that we saw in the economic program and just to kind of orient you a little, the green portions of this if you will reflect Energy Connect's percentage or portion of those activities. So you can see during the 2007 period it was roughly a \$48 million market, a very high spike if you will in that period of time was really attributed to the strong participation of the industrials and the subsequent drop that we see there as well was one which relates to price but more importantly the elimination of the PJM incentive, which we're now talking about having it reinstated in 2010. If we look to the next kind of 08 period you'll see a fairly steady period of time throughout the first three quarters. With that market roughly at about a \$27 million market, we had a very strong participation across our customer base during that period of time and I'm very encouraged by the activity in spite of a loss of the incentive and then lastly over the last three quarters there's really been a very slow period as you know. Certainly, energy prices, loads are down and there just hasn't been an opportunity for our customers to be able to participate in this market but I will say over the last two years, we've had the opportunity and the good success in driving a little over half the marketshare in the PJM footprint for the demand response program.

One of the things I want to try and do is put those same numbers into context of where are we on the price of electricity? And I think the important note worth making here is during the period of time in 2007 we had a \$48 million market when prices were I would say historically in track with what we'd seen in previous years. Had a \$48 million market and, remember, that was the year that the incentive was in place. In 2007, a very spiky year in terms of overall costs as you can see. At one point costs getting as high as over \$250 LMP. That was a \$27 million market. So even though it was a more volatile market,

a smaller overall portion because of the elimination of the incentive and then certainly what we see here is the very low prices we've experienced throughout the year and, again, the corresponding revenue that PJM has paid out in this market.

What's important for us I think is as we've taken the time to really if you will upgrade our services because we know that in fact over time prices will come back. Certainly while loads are soft at this point, the expectation that loads will continue to grow at something on the range of about 1 1/2 % and so while we might have forestalled some problems overall in the near term, certainly there will be a point at which the grid will again become constrained and we'll begin to experience higher prices. To do that, one of the things we've tried to do is really make hay if you can while in fact we've been able to focus on our technology and beginning to build out a complete platform. One of the areas I want to draw everybody's attention to is really this area in the middle which we call the test and certify component. This is an area where we've begun to develop the ability to really identify the assets that our customers have and the performance of those assets in their curtailment, in effect, providing visibility through to the grid operator of the ability of our loads to be able to shed during their various times. This answers a real question that has been what is the performance of our curtailment and in fact can it be relied upon? We're very comfortable that the ability to test and certify these results over a period of time will greatly enhance our customer's ability to participate in the economic market. As you know, we've built this platform on a very solid state data center model. As you can see here, it's a Class 1 facility, a number of different components here as you might expect that we'd have for a scalable software as a service model. As you can see, we've begun to also focus on the ability to scale a platform to be able to reach out and service our partners as we begin to engage them in conversations. One of the areas I like to bring to your attention is our capability to be able to scale up to tens of thousands of messages in a minute to notify our customers of an opportunity or a curtailment requirement.

With that, let me spend a few minutes talking about the economic load relief program and PJM's recent filing. During the summer, PJM filed with the FERC requesting in effect the opportunity to reinstitute the compensation, which is often referred to as the incentive. I'll walk you through what some of the mechanics are of that in a few minutes. Currently, we're in a stage of taking testimony and we would expect a ruling by year end. That said, I would say this is a reasonable contentious issue between who's going to effectively fund these incentives and, therefore, we might expect some delay in that ruling but certainly I think the expectation is that we'll have time to get that ruling in place, be able to upgrade and modify the software to accommodate the various requirements of that and be able to have our customers trained and in place to participate in the summer time. As I've talked about, some of the things that are already on file in the request are really to make a change in terms of how the compensation is calculated starting with the locational marginal price or the LMP and now they're effectively eliminating the deduction of transmission. So it gives our customers about a 2-3% increase in the overall payments because they're only going to be effectively charged during this scheme for an LMP less their generation costs. As a further opportunity if you will for our customers to participate but it's important that they also might find themselves if they were to participate during the day and schedule load and fail to reduce

load that they could effectively have their payments reduced during that period of time. The exciting part of this area is that we've had some very good software improvements. It allows our customers to have what we referred to as a shadow settlement and insure that those situations where a customer has a debit situation, those won't be submitted to PJM and, therefore, their payments won't be reduced for that and then, lastly, as I've talked about the incentive and let me take a minute and walk you through the incentive. In effect, to orient you as to how this slide works if you will, on the left hand side of the chart, you really see the usage if you will going up to about 15 megawatts. On the right hand side if the price per megawatt hour and then the various hours across the day. What we're trying to depict here is perhaps a load curve just to really make a good graphic example for folks. Again, the baseline is this green line. It's in PJM it's calculated on four of the last five highest light days and so those are days that exclude any curtailment activities. So we've got that built in. The important focus here is a continuous ability for us to update customers' baselines. One of the areas here as customers participate it is important that they have visibility of real time understanding of what their overall baseline is.

The second piece is really identifying through our software their capability to schedule and develop curtailment plans and the in fact drop that load. That load drop in effect is an important part of the calculation for how their payment will be made. The next step is to really then take the quantity of that load drop, take the price in this case is depicted by \$150 price it the middle of the day and the customer in this case would receive a payment for the \$150 less their generation cost x their overall quantity of reduction from the baseline. The important part of the incentive in effect allows for the customer to be paid the entire \$150. The way that PJM has put that filing in place would indicate that it would be at the highest 9% of the hours in terms of the price of LMP and at that point, the customer would be paid is referred to as the full LMP. Just to give you an idea, it's about 788 hours of performance opportunity that customers will have to participate in the overall full LMP pricing.

One of the ways that we've tried to make it easy for our customers to understand how that is put together is I'll give you some graphic depiction of what it looks like to a customer to see the opportunity that exists for them on a day to day basis as you can see from the graph here. What we've referred to here is that based on this customer's curtailment schedule that we have in place, we see an opportunity for a customer to save roughly a thousand dollars in overall bill savings as well as be paid an additional thousand dollars for their curtailment capability. What we're depicting here is roughly a 3 1/2 megawatt drop on about a 10 1/2 megawatt customer for a four hour period. What I'd like to draw your attention to is how we've tried to improve the graphics here. So in this case, when a customer would receive the overall full incentive payment, as you can see, their overall value goes up roughly another thousand dollars and the opportunity for the customer is graphically depicted by extending those red lines up and making it very visually appealing to the customer to understand that in fact, there is an opportunity for them to curtail.

One of the other important points about the way the structure of the incentive is designed is that the incentive will also be paid as it's currently contemplated to customers that are on real time pricing and they will be paid \$75/megawatt for their overall load reduction during that period of time. There's a couple of important points here. One, from PJM's perspective, it's important that they not discriminate and only focus on fixed price customers but for us it even broadens the market even better for us. Historically, we've only been able to support the fixed price customers across the PJM footprint with this overall program and by allowing for real time customers to come into the marketplace and participate in these programs, they not only have the ability to save on their bill and our ability for those customers to see that visually as you can see here, a customer would save roughly \$2,000 bill savings by curtailing during the periods noted and they would receive a \$75 payment if you will x the megawatts x the four hours. So it's a very encouraging price signal, opportunity the customer and an opportunity for us to expand our overall footprint in covering the various marketplaces. So one of the things we want to try and do is make sure we sure that we're communicating that we see a very robust value proposition for all of our customers. That is, the opportunity to serve both full fixed price customers as well as dynamic pricing customers and this is an important area as we see dynamic pricing become more of the standard or the default in a number of cases as commercial customers are brought onto the new tariffs. As you can see here, overall these are the effectively side by side comparison. It's interesting how similar, how close it is in overall ability for our customer to participate with clearly the outstanding opportunity when the incentive is paid for roughly an additional thousand dollars.

What does that look like to a customer on an overall annual basis? What I've tried to do here is take a modest view of this and really say that that customer is going to have that opportunity to participate in that marketplace if you will for roughly a hundred days or four hundred hours, roughly half of the 788 hours that the incentive will be paid. We're assuming a customer will be able to participate. In doing that, a customer will experience somewhere between 5 to almost 10% of bill savings related to overall their energy spend. In this case, an estimated energy spend of about \$4 million a year.

So one of the ways that we're going to really look at expanding not only the platform of technology but more importantly, how do we begin to insure that we can support the entire PJM footprint? And that is we've begun to look at and discuss with utilities how we might serve them or enable their customers to participate in the same economic program, if you will, effectively private labeling our product with the utility related demand program. As you can imagine, utilities have very strong customer relationships. They have well established geographic franchises. They know exactly where the load is if you will and enabling them to provide their customer with a opportunity to participate in this market we think is a tremendous opportunity. There's also some opportunity for us to help our utility partners through in support of their efforts to comply with things such as Act 129 and then lastly there's certainly a leverage benefit to the utility for their overall load benefit management.

One of the other areas we'd like to begin to talk about as well and we've begun discussions in is really focusing in on the infrastructure and software side of the

marketplace. That is, how do we begin to identify customers with large or if you will partners with large customer bases, those that in effect often reflect the energy management system, building automation system and smart grid technology companies. These companies are receptive to high growth business models. They have very strong, if you will, and talented development teams that we can work with. We're very encouraged by the opportunity that we see to work and integrate our technology with the various building automation and energy management companies.

One of the areas I think that's a very interesting play for us and to begin to offer and provide differentiation is in the energy suppliers. We're certainly seeing this in the PJM footprint as our customers are beginning to experience this if you will the competitive marketplace and be approached through a number of competitive suppliers. We want to be able to offer those same competitive suppliers the opportunity to service their customers and enable them in a price responsive demand marketplace. And then lastly, I want to bring to your attention that we've really begun to open our minds up overall as to how we'd also support what are often times perhaps referred to as even our competitors. We think it's an important part of bringing a technology to the marketplace to be able to support those customers if you will of our partners and in this case it happens to be a company that perhaps historically has competed with us, we think it's important that we begin to think of ourselves as providing the picks and shovels and not necessarily being the goldminers along the way and so we're very encouraged about the opportunity to begin to focus on leveraging if you will the install base across the entire PJM footprint that we see today as well as the overall focus on stimulus funds related on the AMI rollouts and the like.

So with that, I'd like to talk a little bit on a strategic level of what we see on the roadmap and we've really broken into three different areas that focus of making it easier for customers. That is, improving the overall user interface, a number of areas here to provide things such as continuous signaling, performance feedback, auto registration, self service and certainly overall building out a platform of services for our customers. Second piece is make it more valuable for our customers and that is to say that enabling them in the ways which I would refer to as energy information, how can we effectively begin to capture things such as carbon tracking, energy efficiency, something as I refer to as tariff optimization? Today in the energy business we don't have the ability for our customers to be able to compare and contrast various rate plans. They need to be able to have that kind of information. We certainly need to be able to drive prices to devices as I've talked about with the integration of building automation systems and begin to learn if you will from the usage of our customers heuristic evaluation if you will and improving what I've referred to as the energy IQ of our customers and then certainly looking on a fleetwide management or asset efficiency and understanding overall condition based monitoring of perhaps a nationwide chain of retailers and then lastly certainly opportunity to focus on and begin to expand beyond our current footprint and focus in PJM and begin to expand in California and beyond. We really see this as a great opportunity for us. We're going to begin to do that as we've tried to focus on PJM but we certainly see the opportunity and beginning to emerge in California in the 2010 and 11 period as they also bring in price responsive demand and then certainly in a couple of areas as we see real

long term opportunities is the ability for a utility to understand and aggregate their load monitoring perhaps even capture power quality and voltage regulation related information and then as we begin to focus not only on the US but North America and then as the years come along certainly as we gain the traction we need to and the experience, we'll begin to expand into international markets as well.

With that, I'd like to turn the rest of the conversation over to Andrew for the review of our financials. Thanks.

Andrew: Thanks, Kevin. Returning to the trend of income of statement, this shows the quarter's P&L from Q2 2008 to the most current quarter that you'll see on the right hand side of the slide and as you can see from this, we recorded revenues in the third quarter of \$10.3 million. Revenues in the quarter were primarily attributed to activity in the 2009-10 ILR capacity market and you may recall we recorded about \$3 million of revenue from this program in Q2 and the balance of that revenue or approximately \$9 million has been reflected in the current quarter. Gross margins came in at 30% for the quarter, which is down from the 40% range we booked in both Q1 and Q2, but as a reminder, our gross margins in Q1 and Q2 include the favorable impact of some high margin capacity transactions. Looking at the trended SG&A expenses. We recorded \$2.246 million of expenses in the quarter, which includes non cash stock based compensation of \$178,000. We also incurred approximately \$125,000 of cost associated with the relocation of corporate functions from Portland to Campbell and as you can see, we have continued to execute the planned reduction in expenses from nearly \$3 million a year go to current levels and, as a reminder, these reductions comprise primarily of lower head count costs compared with lower costs associated with consultants. The total operating profit for the quarter came in at \$871,000 and we recorded an [?] of profit at \$1.154 million. And that profit for the quarter was \$528,000 or one cent per share.

In turning to the balance sheet, cash including CDs totaled \$1.725 million up to October 4th, 2009. We increased our accounts receivable by \$4.9 million during the quarter, which is a result of the revenue activity and accounts payable in a cause increase by approximately \$6.2 million. As you're aware in this February we signed a \$5 million loan agreement and were able to pay down \$800,000 of that line during Q3. So the balance outstanding on that loan was \$2 million at the end of the quarter and, just as a reminder, the debt amount that we show here in this slide is net of the debt discount that arose as part of the terms of that agreement.

So turning to the cashflow, the cash balanced increased by \$1.345 million during the quarter. The positive cashflow resorted from adjusted net income of \$624,000 as well as favorable timing of cash receipts against payments for the ILR program. We've received cash inflows from PJM during the quarter, fully ILR programs but began making payments to our customers the end of October. So just in summary on the cash, we generated just under \$2 million of cash in the quarter that allowed us to repay \$800,000 off the note outstanding.

And with that, I'd like to hand the call back to Kathy, who can give some instructions on how you can ask some questions.

Kathy: Ladies and gentlemen, at this time the lines are open for questions. So if you do have a question you would like to ask, please press *8 on your telephone keypad. Again, that is *8 to ask a question and we do have Lenny Berkit with a question, so we will go ahead and put him through.

Lenny: Yeah thank you guys. Overall, great presentation. Thank you very much for the continued effort on that part. Two questions, one relating to the intent of program, the other PJM. On the latter point, can you please just make it clearer for us to track what went on in the PJM capacity revenue and margin year over year? Give us some idea of what occurred and then I have that second question.

Kevin: Sure. Let me give that one to Andrew. So it's really a question as to the recognition of revenue year over year.

Andrew: So the year ago quarter we recognized 100% of that ILR revenue in the third quarter. What we did this year was to take that revenue and recognize it over essentially the four month test period. That meant that we took 25% of that and recognized that in Q2 and the balance was recognized in Q3. So those revenues for this year are basically over if you like two quarters, whereas a year ago that was all reflected in one quarter, that was the third quarter.

Lenny: Okay, so if I compared the two quarters over the two quarters, the second and third quarter of this year vs. last, it looks like the PJM capacity revenues prove somewhere up from 10 to like 14?

Andrew: Yeah, there's a significant increase on the capacity revenues. Unfortunately that's kind of offset by the significant weakness that we see here on the economic revenue activity.

Lenny: Okay, understood. Now, what happened with the margin year over year if you compare in the manner?

Andrew: Yeah if you look at the, again, Q2 this year we have some favorable margin transactions due to some other capacity transactions that helped improve that margin and the margin that we see for this year on the third quarter is really like a margin related to the underlying margins on the ILR piece of business.

Lenny: But if you just compare this year vs. last year vs. what you just discussed sequentially, it was down. Can you explain why it was down?

Andrew: Again, the impact of less economic business in the mix.

Lenny: Okay, perfect. And then the second part of the question, maybe this is related to Kevin, can you just give us some idea of what you're seeing on customer count year to date? How that's changed and how the margin structure within that customer base is changing so that it will give us some comfort so that even if the incentive is put in that you're going to get your fair share of it?

Kevin: Right.

Lenny: And also you discussed the \$48 million market a couple years ago and then the \$27, can you just give us any idea based on historical usage rates and making some assumptions of your standard weather pattern of what the market size will be based on what you know and what the incentive looks like?

Kevin: Well, I appreciate your trying to get a good sense of where we see the market and I think, quite frankly, its early days and very difficult to predict. In terms of kind of looking at the size of our customer base, there's a couple of different ways to look at how we certainly the overall customer count is important. So we have roughly a little over 300 customers that are engaged in economic as well as in the capacity and then to a smaller extent, kind of our most experienced customers are those that participated in the ancillary services markets. If we look at another way to measure that, we look at the overall what I would refer to as the connected megawatts—connected megawatts are roughly 1,350 connected megawatts, with the ability to curtail a little over 300 megawatts overalls. So if you think about that, if the customer is if you will connected and has the ability to drop roughly 10-20% of their load depending on whether it's an industrial or a commercial, then I think you can begin to say that those customers have an opportunity to participate for something like certainly our expectation is a 400-hour opportunity during the full year next year. Now what does that mean in terms of where prices are? I think that's difficult to say but it will say that certainly under the current design if it comes through, they would have the opportunity to be paid the full locational price for that 400 hours of curtailment. That make sense?

Lenny: Okay, is the new plan going to help you given what your agreements are with these customers and the PJM structure? Is it going to improve your profitability vs. last year or stay the same or what?

Kevin: We still think that there's a fairly soft economic market next year. I think overall we'll see a couple of things that we get the benefit of higher prices overall. The forward capacity market next year prices are roughly \$63,600, so the prices are up. let's call it something like 20 and in some cases as much of 50% in some of the western PJM areas, so I think we see some capacity revenue improvement there, but I think it's very difficult for us to envision where electricity prices are going to be next year. I think we will see some firming over time and certainly as we begin to look at the summertime will have much better sense of where energy prices are or where gas prices are and how that reflects on the marketplace. Just early days at this point for us.

Lenny: Alright, I'll let another person ask a question but I do have a follow up. I'll come back in.

Kevin: You bet. Thanks, Lenny.

Kathy: We now have Bob from Anchorage, Alaska.

Bob: Bob in Anchorage, Alaska. How are you? Love what you're doing and want to ask a couple questions. One that I didn't get a chance to ask you last time I saw you and one is ILR, will that continue to be a good business going out as far as you can see and continue to accelerate?

Kevin: I actually don't think that it is to be candid and it has less to do with us and more to do with the capacity markets. We actually see that there is some dynamics in the 2012 period that actually are very troublesome. That is, if you can imagine prices are roughly \$50,000 today in PJM. They go up to about \$63-64,000 next year. They then drop to \$40,000 across the PJM footprint and then they can have kind of an interesting bifurcation of the western PJM side of the footprint would be paid \$6,000/megawatt and the eastern side will remain high at about \$60,000. So we see a real interesting dynamic, whether or not the option was if you will successful is I think a question. I think they're trying to understand the dynamics of that option and were surprised by it. But I begin to think that we're seeing some level of saturation in the capacity markets as it relates to overall emergency reserves and so that's kind of my general sense of the longer term. Certainly in the next year or two we see an opportunity to continue to build our business and continue to use that as a mechanism to fund our growth but really the real opportunity for us lies in both the economic market as well as in the ancillary services markets.

Bob: Thank you. A second question is a long time ago when I first invested in the company, you had a number of products that you were developing and bringing online and I think the last I heard there were nine available and I was wondering how many there are now and I don't know if you have the time but how are each one of those doing as far as are they going to be flat or are they going to be linear acceleration or exponential?

Kevin: Sure. I guess I'm not familiar with the nine and how that might have been characterized. That might have been within various markets and effectively identifying each of the various capacity programs we have

Bob: Exactly

Kevin: in California, New England, PJM. We have a couple of different contracts in California. We have a contract in New England, which in effect only takes us through the middle of 2010. So we actually did not participate a couple of years ago in the forward capacity market in New England, so I would say that that if you will the forward capacity participation for us in New England will not go beyond the middle of 2010. In

the California markets we have in place both contracts with Southern California Edison as well as PG&E but frankly we're more encouraged by the real opportunity we see and the emergence of the ISO in California and then, lastly, across PJM, we have all three products that we offer in PJM the capacity, what we sometimes refer to as energy or economic and ancillary services, I would say that the medium term in the capacity business I think I've described in terms of its price dynamic. I think we see a real opportunity for us to continue to really leverage the economic and I think the thing I really want to bring to everyone's attention is our sense of we don't think the only way to get economic customers is for us to get themselves through our current direct sales organization but in fact, we believe that the opportunity is to provide the platform to all of the curtailment capability in PJM. An example of that that I'll give you is that we currently are working with a consortium of curtailment service providers and are not Converge ourselves, Veridity, Cpower and the opportunity that we see here along with the folks at Wal-Mart was to file, if you will along with PJM to get this incentive done properly if you will for PJM. I believe that that same level of cooperation is possible and our ability to serve them or enable their customers to participate in the market leveraging our software.

Bob: Thank you. I hear what you said. I guess I would go a little further and just say these things were set up to me as products but I see you're talking about contracts and mixing in the three major areas of your business which includes ILR and can you say in general whether these products as a group will accelerate in revenue or are they going to remain flat or linearly increase?

Kevin: Again, medium term on capacity, I am reasonably encouraged by. I think that we'll see some medium term strength in that as prices come up. But we do see a decline overall in the capacity. In fact, our focus is not to be in the capacity business. We think the strength of the business is really based upon our economic products and we're very encouraged by what we see as the opportunity to bring that to market in PJM and beyond and then certainly the longer term, let's talk a couple of years out. We're still a ways away from having if you will the integration necessary to really drive the ancillary services market but we think that that's a tremendous opportunity. If we look at renewable energy and what it creates as a problem if you will for balancing on the grid, there's tremendous opportunity to leverage demand response if you will firm the overall load you get from renewable energy. So I think the long term on ancillary services looks very strong.

Bob: Thank you for answering my questions.

Kathy: This is a reminder, ladies and gentlemen, if you do have a question you would like to ask you may simply press *8 to ask that question. And we do have Peter who has been waiting in the queue. Appears we may have lost Peter. So we'll go ahead and go with Marshall who also has a question. Marshall's from Missoula, Montana.

Marshall: Hi. I noticed when you were talking about approaching customers the phrase you used was re-engaging and adoption which tends to suggest to me that perhaps

some of the customers that Energy Connect had in the past had drifted away a little bit and you're going back after them. What does that mean please?

Kevin: Yeah. I think it's important to realize that anything like demand response if an effect particularly an area of price responsive demand it requires that they be active if you will. They have to take steps based upon price signals. They haven't had any price signals for a year now. So it's really a matter of insuring that they're ready as prices come back if you will familiar with our software. So we've done a complete rollout of our software using the new user interface for our customers, effectively developing their curtailment plans and really actually reregistering them across the PJM footprint. So I would really say it is a re-engagement with our customers. We will also be doing a very strong push overall on training and adoption in the springtime, again, just before they come into the season so that they will be if you will reacquainted with how to participate in that marketplace.

Marshall: Okay, under the managed demand model as opposed to managing peak demand, I would think you'd have I guess you would say also you would have a lot more opportunities to do business with these guys, so I would think that the transactions would be much more frequent. Is that not true?

Kevin: Actually, if prices are there, there certainly is an opportunity for them to do it and we have some customers with very low rate structures who are active almost on a daily basis but really given that prices are often or certainly have been this year below their retail rate, there's actually no incentive or there's no revenue for them to make for curtailment when the locational price is below their retail rate.

Marshall: I see. Obviously one of the big issues for this company and I think a concern of all of us that own stock is what's going to happen next quarter? In other words, are we going to run through some of the cash that you've actually have been able to build up or what's your sense of cash management over the next several quarters.

Kevin: I'll give Andrew the cash question but let me just give you a real frank answer about how we see the quarter ahead and I think it's important. The business is very cyclical. That is, based upon the current model that we have in place where effectively all of our capacity revenues in PJM are taken in the summertime, we have very modest amounts of revenue that we see that come through some of our other contracts in the fourth quarter and the first quarter. We also don't see and certainly we're partially through the fourth quarter now, we haven't seen energy prices so there isn't an opportunity from there either. So I remain very cautious on the overall quarter both from the fourth quarter and the first quarter but very encouraged by the opportunity to if you will continue to build the business and focus on that and are very comfortable that we've built that into our plans. We understand what it is and as we begin to roll out our software as a service program and really licensing the technology if you will and receiving effectively a subscription revenue from it, we begin to create a better base of business overall and a longer kind of a more predictable revenue stream related to that.

Marshall: Thanks a lot. I'll perhaps come back later with another question. Appreciate it.

Kathy: Our next caller in the queue with a question is Lenny. So we'll go ahead and put him through.

Lenny: Hi again. Kevin before you joined, your predecessor actually helped outline on the price base side that some of your customers were in a very low margin structure and the plan was to actually renegotiate contracts so that they were more favorable to the company. Have you been successful in doing so? That was part and parcel to the question I had prior that I was trying to get to.

Kevin: So we've got a couple of things in place that we see. Certainly the thing that we're beginning to do in our contracts is create multi-year contracts with our customers and what we try and do is really recognize in working with our customers that in some cases the capacity market can be a pretty competitive marketplace. As I mentioned, it's kind of that saturation but that certainly the work level and the activity and requirement to support the overall efforts that we have to do on the economic side requires that they either come in the form of margin and/or subscription fees that allow for us if you will support and service the customers. I think the thing that's important to think of is if we begin to do work or as we begin to do work with partners, we may not take if you will all of the revenue through our topline. We may very well just take the fee revenue related to our margin, so it's as we see those contracts and as we talk with both utilities and large customers in this area, I think we're more than happy to communicate the terms of those as they come through because I think it will be a bit of an evolving model as we effectively see subscription based revenues as well as fee based revenues over time increasing.

Lenny: Okay, the second part of that is first of all let me just make a statement. I hope all of you investors out there understand the importance of Kevin undertaking this effort to go after a very high margin revenue stream and it puts the company in a very unique position and I for one am very encouraged for the company to do so. But just to follow up on that, how long do you think it's going to take to bear fruit in that effort?

Kevin: You bet. I think we'll have good progress I would hope to certainly begin to identify and be able to report to the shareholder either through press releases or what have you of the engagements that we see and certainly as we begin to look into 2010, I would say in the first half of the year, I'd be very concerned if we hadn't had a number of successes at that point in terms of pilots of identifying strategic relationships at that point.

Lenny: Are you short of betting the company on this strategy? How important is it for you to do this and execute this?

Kevin: I think the long term opportunity of the company and the price responsive area. I think we have a very differentiated platform. No one really has the ability to do what we can do and I think enabling others, whether that be our let's call it the other

demand aggregators or the utilities or the energy service providers, I think it's a very important opportunity for us, so we're very encouraged by the opportunity we think evolving away from trying to be a goldminer ourselves and really providing tools to enable the marketplace is just a fabulous opportunity for us.

Lenny: Is this an opportunity for you to go into markets where the reimbursement from the utility or entities like PJM are not in place where the market's nascent that you can just use curtailment and use a subscription model to penetrate?

Kevin: That's correct. I mean one of the ways to think of it is while today we like the incentive markets, we think that they're there for let's call it the medium term, overall we see a trend towards dynamic pricing. In effect, what we want to do and one of the things we tried to point out on the slides is the opportunity for customers even on dynamic pricing to have value in effect if they're going to experience dynamic prices, the real time price if you will tomorrow knowing that a day ahead so they can plan around the peak price of tomorrow is very important to commercial industrial users. So one of the areas that we really tried to do is broaden our platform so that we could serve more than just the PJM economic revenue model but really begin to look at sending price signals to customers, whether that be on behalf of the utility under Act 129 or what we refer to as really dynamic capacity pricing and if you will to disaggregate a capacity payment over a period of time and pay it out on an hourly basis to customers for performance.

Lenny: Alright, one last question. Are you seeing any competitors in your efforts to do this and what will it take for adoption? Meaning, is it just customer acceptance of the concept?

Kevin: Yeah, I think I would have referred to it as we don't see competitors because we don't see people that are focused on price responsive. To say that there's nobody out there I think is naïve though. I think that certainly people see the opportunity. As I mentioned, the consortium that's working along with us and Wal-Mart to Converge and Interknock and Veridity and such, those are all people that have customers that they want to have participate in the economic market. I think our value proposition is that we want to enable them and so in effect, through an indirect model, where we're happy to handle the overall software processing settlement activities and they can work with their customers directly and manage through their customers. So we see the opportunity to really not only take on our direct customers but to really be able to provide the overall platform to PJM customers to start with but also to begin to engage in bilateral conversations with utilities to support them as well in their efforts.

Lenny: Excellent, Kevin. Thank you.

Kathy: And gentlemen, we have one additional question in the queue. Marshall is there again, so we'll go ahead and put him through. That is our last question. Marshall, you can now go ahead.

Marshall: The other question I wanted to ask you guys is quite obviously, your technology is the key to the future of the company and with reduced cash and so forth, I suppose we're always concerned with whether or not you'll have enough cash to keep your technology competitive or come up with new solutions to these problems and so forth? What is your outlook in that area, please?

Kevin: Sure, let me take a crack at it and I think in terms of the detail, I know you asked a question before on cash and I'd like to give Andrew a chance to chat about that, but, Marshall, I think the opportunity for us is tremendous. One of the things that we wanted to do is really identify that we could run this business on a very tight budget if you will a bootstrap basis to get the business shaped up and focused in the right area. We see a tremendous opportunity to really grow the business and, frankly, I think that that's as we see kind of the market as we go ahead, the lead time that we need is really in software development, so the sooner that we can begin to invest more in engineering activity, it'll have a multiplicative effect on our activities. So we're doing everything we can if you will to dedicate as much resources as we can to development side of the equation and we'll continue to do that over the next couple of years.

Andrew: So kind of talking a little bit, Marshall, about the cashflow impacts of that then obviously we want to continue to make these strategic investments in the development team where we can afford to with our understanding of course we do have a cash constraint in kind of managing that whole process and looking forward we do see that we do have sufficient cash given the way we see the business developing and given the line that we have in place today to see us through that effort, so obviously we could always use more but at the end of the day we're working within the lines that we have and believe that we can build out the platform given the resources available to us.

Marshall: I really appreciate the explanation and I sort of feel like Lenny. I appreciate so much you guys being on the team and especially Kevin and having a really clear strategic direction for the company. It seems to me it's a big improvement over where we were a year or two ago. Thanks a lot.

Kevin: Appreciate that Marshall.

Kathy: Alright, gentlemen, I think that does conclude the Q&A session. We don't have anyone else waiting.

Kevin: Okay. Well thank you everybody. I appreciate everybody's time and focus on the business. We hope to continue to build the business and really take advantage of the opportunity we have here. Certainly as we see things and more certainty around the incentive and the development of our partnerships, we'll make sure that everybody's up to speed and aware of what we see in that opportunity.

Kathy: Thank you very much, Kevin and Andrew. Ladies and gentlemen, that does conclude today's Live Meeting. Thank you so much for joining us today and you may now disconnect.

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