Energy Choice Matters

October 30, 2009

Strong Margins Propel Reliant to 25% of Expected NRG 2009 EBITDA

Strong margins accompanied by higher customer usage from warmer than normal weather drove Reliant Energy adjusted EBITDA, excluding mark-to-market impacts, to $306 million for the third quarter, parent NRG Energy reported yesterday. There is no equivalent year-ago comparison as NRG acquired Reliant in May. Reliant pre-tax net income was $393 million for the quarter.

The gains were slightly offset by a decrease in customer count at Reliant, which reported a weighted average customer count of 1.64 million meters. NRG has not posted its 10-Q which typically reports the customer count as of the quarter-end in addition to the weighted average metric. Weighted average residential and mass market customer count in the third quarter was 1.57 million meters. Weighted average commercial and industrial customer count in the third quarter was 68,000. As of June 30, 2009, actual residential/mass customer count was 1.59 million, and commercial/industrial customer count was 68,000.

Despite price cuts in June and July totaling 20% off of some products, Reliant experienced attrition as competitors took more aggressive pricing actions during the quarter, NRG COO John Ragan said. "Going forward, we expect that Reliant's current acquisition campaign, retention program and its top customer satisfaction ratings will reduce attrition," Ragan told investors during an earnings call.

In the commercial and industrial market, Ragan said that Reliant has continued to regain its competitive footing since slowing the growth of the business in the first five months of 2009. Ragan

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First Choice Power Continues Turnaround on Strong Margins

Strong margins from lower purchased power costs drove another strong quarter for First Choice Power, which reported ongoing earnings of $18.3 million for the third quarter, reversing the year-ago ongoing loss of $3.0 million. GAAP earnings were $17.1 million compared a loss of $16.5 million a year ago.

Ongoing EBITDA was $29.6 million versus negative $3.3 million a year ago. Increased margins accounted for $29.5 million in the year-over-year gain, as purchased power costs averaged about $58 per megawatt-hour for the third quarter of 2009, compared with last year's average price of about $129 per megawatt-hour. First Choice also benefited from the non-recurrence of $7.2 million in charges experienced in the 2008 quarter related to the Lehman Brothers bankruptcy and Hurricane Ike.

Lower bad debt also contributed $1.2 million to the growth in ongoing EBITDA. Quarterly bad-debt expense decreased from $10.3 million in the 2008 quarter to $9.1 million, from lower customer default rates and better management of outstanding accounts receivable. First Choice has also improved the credit quality of its customer base. First Choice reported that 75-80% of it customers are on longer term contracts, up from less than 50% a year ago.

However, PNM Resources CEO Jeff Sterba said that managing bad debt remains a challenge,

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Attrition, Lower Margins Continue at SouthStar Energy

A move to more fixed priced contracts and a decrease in customer count decreased SouthStar Energy Services' operating margin by $2 million in the third quarter versus the year-ago period, AGL Resources, which owns 70% of the marketer, reported yesterday.

SouthStar reported a similar impact from an increased mix of fixed-price contracts in the second quarter, as the fixed-rate products carry lower margins (Only in Matters, 7/31/09). SouthStar's nearest competitor in the Georgia market, Scana Energy, also reported lower margins due to an increase in fixed contracts this week (Only in Matters, 10/28/09).

As it did in the second quarter, SouthStar continues to battle customer churn in Georgia (where it markets as Georgia Natural Gas) due greater competitive intensity in pricing and higher customer switching. Average customers during the quarter in Georgia were 496,000 for the third quarter, versus 518,000 a year ago. Its Georgia market share decreased to 33% from 34%.

SouthStar recorded EBIT of negative $2 million for the quarter, versus negative $21 million in the third quarter of 2008. The bulk of the improvement was due to the absence of an $18 million lower-of-cost-or-market natural gas inventory valuation adjustment recorded in the third quarter of 2008.

Additionally, increased margins from retail sales in Ohio and higher interruptible operating margins contributed $2 million to the improvement in EBIT. Its expansion efforts continue be focused on Ohio and Florida, as previously reported.

SouthStar said that during the third quarter, it increased marketing and direct selling expenses by $2 million versus the prior-year quarter as part of a more aggressive investment in marketing to battle Georgia attrition. Customer care and outside services expenses were down by $2 million versus a year ago.

SouthStar's Georgia third quarter firm volumes were flat at 3 Bcf versus the year-ago period. Ohio and Florida volumes were 1 Bcf, with no comparison to the year-ago quarter due to the recent expansion into those markets.

Operating revenues at SouthStar were $100 million for the quarter, versus $149 million a year ago. Operating margin was $14 million versus negative $5 million a year ago.

SouthStar said that going forward it may be affected by bad debt, but said its overall exposure is partially mitigated by the high credit quality of its customer base, lower wholesale natural gas prices in 2009, disciplined collection practices, and the unregulated pricing structure in Georgia.

AGL reported that the Georgia PSC has approved its previously reported acquisition of an additional 15% ownership share in the SouthStar joint venture from Piedmont Natural Gas (raising AGL's share to 85%), and that the transaction will take effect January 1, 2010.

Pepco Energy Services Earnings Rise on Lower Supply Costs

Pepco Energy Services reported net income of $14 million for the third quarter of 2009, up from $3 million a year ago, on lower supply costs and reduced losses from energy derivative contracts.

Parent Pepco Holdings did not give a substantive update on its strategic review of the Retail Energy Supply business within Pepco Energy Services in either a 10-Q filed ahead of an earnings call today or a news release. PHI continues to evaluate the possible restructuring, sale or wind down of the retail supply business. Pepco Energy Services said it continues to experience reduced customer retention levels and reduced levels of new customer acquisitions due to the cost of capital embedded in its retail pricing.

For the third quarter, lower supply costs and reduced losses from energy derivative contracts accounted for a $10 million incremental improvement in net income versus the year-ago quarter. Pepco Energy Services also saw a $6 million improvement from lower Reliability Pricing Model charges and higher capacity prices associated with its generation. Partially offsetting these gains was a $4 million decrease due to higher interest and other expenses, primarily associated with credit and collateral facilities for the Retail Energy Supply business.

Gross margin from the Retail Energy Supply

business of Pepco Energy Services increased to $42 million from $14 million a year ago. Gross margin from Energy Services business was $14 million versus $16 million a year ago.

Operating revenue across both Pepco Energy Services' Supply and Energy Services units was $611 million versus $716 million a year ago. Lower volumes of retail electric load served due to the continuing expiration of existing retail contracts accounted for $94 million of the decline.

Pepco Energy Services' retail electric sales for the third quarter were 4,600 GWh, down from 5,600 GWh a year ago, again reflecting expired contracts which were not renewed.

At Conectiv Energy, net income for the third quarter was down at $21 million from $49 million a year ago from hedging impacts as well as lower run-times and reduced spark spreads and dark spreads. Partially offsetting these factors were higher RPM revenues and a $16 million increase in margins for default electricity supply contracts and associated hedges, primarily due to lower power prices. Energy Marketing earnings at Conectiv decreased approximately $6 million year-over-year primarily due to power marketing activities.

Conectiv gross margin was down at $81 million from $130 million a year ago. Merchant Generation & Load Service gross margin fell to $74 million from $113 million, and Energy Marketing gross margin fell to $7 million from $17 million.

Conectiv's average sale price was as follows:

Average Power Sales Price ($/MWh):

Generation Sales	$44.21	$117.50
Non-Generation Sales	$88.52	$101.70
Total	$66.07	$107.65

Santanna Energy Services Receives Michigan Gas License

The Michigan PSC granted Santanna Energy Services an alternative gas supplier license. Santanna agreed to a number of conditions in order to obtain a license after action on an application filed in 2008 was deferred due to Santanna's bankruptcy in the wake of hurricanes Katrina and Rita.

Santanna committed that it will not offer any contracts with a term longer than 24 months, due to uncertainties in the competitive landscape beyond 24 months. Santanna currently offers 12-month contracts only and said it will most likely continue with 12-month contracts only.

Santanna also said that it will only sell fixed price contracts if it owns the gas, either physically or through purchased hedges, before the sale.

Consistent with its Illinois operations, Santanna will not charge a termination fee on residential or small commercial contracts.

All three provisions mentioned above were memorialized as conditions of Santanna's licensure in the Commission's order, for a period of 24 months. The Commission agreed with Staff that Santanna's significant changes to its operating methods since 2005-2007, when it a defaulted on a number of contracts in Illinois and entered bankruptcy, alleviate any concerns about Santanna's future operations.

Santanna now has supply agreements with Eagle Energy Partners and Enterprise Products Partners to hedge 100% of customer contracts.

Santanna had also previously participated in a MichCon pilot in 1999-2000 but exited the program.

Santanna currently serves one large transportation customer in Michigan and approximately 55,000 commercial and residential customers in Illinois.

PPL Supply Reports Lower Margins from Default Service Contracts due to Migration

PPL's Supply unit reported earnings from ongoing operations of $124 million versus $59 million in the year-ago quarter.

Margins improved by about $71 million for Supply's East segment, and about $4 million for Supply's West segment. However, most of the gains came from the absence of one-time trading losses incurred in the third quarter of 2008 which were caused by the dramatic decline in wholesale energy prices and lack of market liquidity.

Excluding non-recurring items experienced in the third quarter of 2008, Supply's margins were essentially flat.

Among other factors weighing the margins, PPL reported that it has seen lower margins in

its load following supply contracts due to customer migration. PPL said that, regionally, default service load is down about 12-15% from a combination of shopping, weather, and economic impacts.

Higher operation and maintenance expenses at PPL's Susquehanna nuclear plant and higher depreciation also negatively impacted margins, but these factors were offset by higher value from baseload generation, higher Eastern capacity prices and higher wholesale volumes in the West.

PPL has not yet filed a 10-Q which typically includes a breakdown of Supply margin by segment (asset versus marketing). During an earnings call, PPL CEO James Miller said that while some legislation to defer the rate cap expiration in Pennsylvania in still in the legislature, it is increasingly less likely that there will be legislative action on rate caps.

Allegheny Energy Supply Wins All of Residential, Type I Load at Maryland Affiliate

Allegheny Energy's Generation and Marketing unit reported lower net income of $45.5 million versus $84.7 million a year ago on lower volumes and reduced pricing. Adjusted earnings were $68.6 million versus $87.1 million a year ago.

Lower generation output and market prices, net of the benefits in Allegheny Energy Supply's hedge position and increased capacity revenue, reduced margin by $82 million

Allegheny CEO Paul Evanson noted that based on procurement results to date, West Penn Power residential customers are projected to only see a 10% increase in supply rates upon the expiration of rate caps in 2011. "This should make for a seamless transition to market-based rates in Pennsylvania," Evanson said.

Evanson reported that in addition to Allegheny Energy Supply winning all available tranches in West Penn Power's recent auction (as previously reported), Allegheny Energy Supply also won all available residential and small commercial load available in affiliate Potomac Edison's recent Maryland SOS solicitation, with the Maryland load equaling 1.8 million megawatt-hours in 2010 and 2011.

With the tranches won in the recent auctions, Allegheny Energy Supply is now hedged at about 87% in 2010, 27% in 2011 and 4% in 2012. That compares with targets of 80-90% for the next year out, 30-50% for the second year out and up to 30% for the third year out. Evanson said that Allegheny Energy Supply will likely remain in the low end of the target ranges to maintain leverage in any economic recovery.

In response to an analyst question, Evanson said that, over time, Allegheny would like to grow and invest more in the generation business, but stressed that current uncertainties in the financial markets prevent any near-term asset growth in the Supply unit. Evanson believes Allegheny could benefit from greater scale in its generation business, and sees tremendous upside potential for the unit going forward.

Allegheny has not yet filed a 10-Q.

FERC Accepts Consensus RPM Changes

FERC accepted, without modification, consensus changes to PJM's Reliability Pricing Model that resulted from the Capacity Market Evolution Committee. None of the revisions drew significant protests (Only in Matters, 9/2/09)

Among the approved changes is that PJM will revise the New Entry Pricing Adjustment (NEPA) so that a new entrant needed in the first delivery year can be assured of three years of revenue under the adjustment, to incent the needed new entry. Specifically, if the NEPA resource does not clear the auction in the second or third year, the resource is deemed resubmitted at the highest price per MW at which the amount of capacity it cleared in the first year will clear in the subsequent year. The NEPA resource may displace one or more other resources in the supply stack that otherwise would have cleared, but it will do so at a price that is low enough to displace those other resources (but no lower than needed for that purpose). The NEPA resources will not set the auction clearing price in such circumstances.

Additionally, demand resources will be permitted to set the clearing price in the RPM auctions. As part of the revisions, demand resources will not be considered part of the available supply for purposes of applying the

market power screens to generation resources.

PJM will revise its tariff to clarify that a Conditional Incremental Auction is to be held only as a result of a delay to the in-service date of a Backbone Transmission Upgrade, as opposed to a delay in any planned transmission upgrade. Furthermore, PJM will develop an "Excess Commitment Credit" for load-serving entities under certain circumstances. Under this provision, PJM will allocate to load-serving entities the megawatt quantity of any sell offers submitted by PJM in the Incremental Auctions which did not clear, i.e., excess capacity that PJM seeks, but is unable, to sell back in the Incremental Auction. The load-serving entities can then use the excess capacity commitment credits to replace (or fulfill) their own capacity commitments and thereby mitigate their own risks of resource non-performance. Alternatively, the load-serving entities could sell the excess commitment to others.

Under the changes, load serving entities using the Fixed Resource Requirement mechanism will be able to reduce their RPM capacity commitments when their load forecast is reduced, which LSEs relying on the RPM auction may currently do.

Briefly:

Just Energy Receives Michigan Gas License

The Michigan PSC granted Just Energy an alternative gas supplier license, with Just Energy subject to the marketing provisions of a settlement applicable to Universal Energy (which it recently acquired) under Case No. U-15577. The Commission also memorialized as a condition of licensure Just Energy's commitment to offer mass market customers an extended cancellation period of 30 days after the date of the first bill, during which residential and small commercial customers can cancel their contract without any early termination fees (Only in Matters, 9/24/09). Just Energy will relinquish the license currently held by Universal upon the expiration of Universal's remaining contracts. Separately, the Commission also granted Commerce Energy an amended alternative electric supplier license to reflect its new ownership under Just Energy.

Border Energy Receives Michigan Gas License

The Michigan PSC granted Border Energy an alternative gas supplier license (Only in Matters, 4/29/09). As only reported in *Matters*, Border has grown its customer base to more than 20,000 small commercial and residential customers in Ohio and Indiana.

CAISO Approves Virtual Bidding

The California ISO Board of Governors unanimously approved adding convergence bidding to the ISO market in early 2011.

DPUC Warns Clearview on Data Requests

The Connecticut DPUC informed Clearview Electric that if it does not reply to outstanding Department questions concerning complaints regarding marketing issues and alleged slamming issues, the DPUC will, "consider all means available to investigate and resolve this matter, up to and including initiation of a formal proceeding for the purpose of possible imposition of a civil penalty, pursuant to § 16-41 of the Connecticut General Statutes (Conn. Gen. Stat.), suspension or revocation of your electric supplier license, or a prohibition on accepting new customers, pursuant to Conn. Gen. Stat. § 16-245(k)." As only reported in *Matters*, the DPUC first sent a letter to Clearview two weeks ago, requesting a response to previously communicated questions on the complaints (Only in Matters, 10/14/09). As of the Department's letter yesterday, Clearview has not responded, and was given until November 11, 2009 to explain its failure to respond.

Integrys Energy Services Signs Agreement to Sell Wholesale Gas Business

Integrys Energy Services has signed an agreement to sell its wholesale natural gas marketing business in a two-part transaction to an undisclosed buyer for an undisclosed sum. The first part of the transaction involves substantially all of Integrys Energy Services' wholesale natural gas marketing business, which generated physical volumes of 594.9 Bcf in 2008. Closing for this part of the deal is anticipated by the end of the fourth quarter of 2009, and is expected to reduce Integrys Energy Group’s collateral support requirements by $290

million. The second part of the transaction includes 11.5 Bcf of storage contracts. Between now and April 2011, Integrys Energy Services will provide the buyer with fee-based services related to approximately 8 Bcf of the 11.5 Bcf total retained storage contracts. The remaining 3.5 Bcf of the retained storage will be divested in the normal course of business and is expected to be completed in the first quarter 2010. Following the completion of the provision of such services to the buyer in April 2011, and Integrys Energy Services' sale of the remaining 8 Bcf of the retained storage contracts, collateral support requirements are expected to be reduced by an additional $150 million.

Hydro-Quebec Signs MOU to Purchase NB Power Assets

Hydro-Quebec has signed a memorandum of understanding with New Brunswick Power to acquire most of NB Power's assets for an amount equivalent to NB Power's debt, C$4.75 billion. Quebec Premier Jean Charest said that the transaction will, "provide Québec with a strategic geographic position with regards to the markets of Atlantic Canada and New England." Ownership of New Brunswick's transmission connections with the U. S. will allow Hydro-Quebec to double exports within two years to 20-25 terawatt-hours. Included in the transaction are NB Power's nuclear plant at Point Lepreau (after the completion of the plant's refurbishment), hydro facilities, peaking power plants, and transmission and distribution assets. NB Power's thermal generation facilities at Coleson Cove and Belledune would continue to be owned and operated by the Province of New Brunswick, and would supply electricity to Hydro-Quebec under the terms of tolling agreements. The thermal generating facility at Dalhousie would be phased out. The transaction would be profitable for Hydro-Quebec from year one, with an expected return on equity of more than 10 percent.

FirstEnergy Solutions Signs 22 Communities to Extended Aggregation Program

FirstEnergy Solutions said it has signed 22 Ohio communities to its Powering Our Communities program in which FirstEnergy Solutions is providing an aggregate of $7.4 million in grants in exchange for signing the communities to long-term municipal electric aggregation programs. The program was offered to a total of 50 communities (Matters, 9/17/09). Under the six-year program (which in some cases expands current aggregations expiring in 2012 so locks up load through 2018), residential service is priced at 6% off the price to compare, and small commercial service is priced at a discount of up to 4%. The majority of participating communities already had aggregation contracts with FirstEnergy Solutions, which serves more than 600,000 Ohio customers through governmental aggregation.

AEP Generation and Marketing Income Falls

AEP reported lower ongoing earnings from its Generation and Marketing business of $5 million for the third quarter, versus $16 million a year ago. Gross margin for the Generation and Marketing unit, which includes AEP's non-regulated generating, marketing and risk management activities primarily in ERCOT, was down at $25 million versus $47 million a year ago. The decline was primarily due to lower gross margins at the Oklaunion Power Station related to lower power prices in ERCOT. AEP also reported lower off-system prices and volumes for its excess regulated generation. Off-system gross margin was $96 million for the third quarter of 2009 (4,500 GWh at $21.1/MWh), down from $322 million a year ago (9,800 GWh at $32.8/MWh). AEP CEO Michael Morris, during an earnings call, said that he sees no cloud on the horizon that would cause worry regarding the Public Utility Commission of Ohio's application of the significantly excess earnings test to AEP's electric security plan.

Ohio Supreme Court Dismisses OCC Appeal of AEP Order

The Supreme Court of Ohio dismissed the Ohio Consumers' Counsel's appeal of the Public Utilities Commission of Ohio's decision to allow the AEP utilities to collect an annual revenue requirement related to their electric security plan, because PUCO still has pending rehearing requests before it (Matters, 9/11/09). OCC's petition to the Court to direct PUCO to act on the rehearing requests is still pending.

Reliant ... *from 1*

reported that Reliant has experienced improvements during the third quarter in renewing current customers and winning back previous customers. Ragan said that Reliant remains the largest commercial and industrial retail provider in Texas.

Reliant was still able to record strong margins despite the aforementioned price reductions and higher weather-related demand, as power purchase costs remained low during the quarter. Total revenues for the quarter, excluding contract amortization and unrealized gains and losses, were about $1.9 billion on 16 TWh sold. Cost of energy, excluding contract amortization and unrealized gains and losses on derivative contracts for energy supply, totaled $1.4 billion, resulting in a gross margin of $443 million.

Average margin per customer was $27.69/MWh, $3.08 lower than in the second quarter of 2009, due to the impact of lower prices. Jason Few, President at Reliant, expects pricing to be relatively stable for 2010, and does not see any big downward trend in prices.

Bad debt was $28 million for the third quarter. Other notable operating expenses included $37 million associated Reliant's call center and billing, credit and collections; and $48 million in selling, general and administrative expenses.

Ragan said that for 2010, 61% of Reliant's expected retail sales are contracted and fully hedged, representing both commercial and industrial customers and term residential load. The 39% unhedged and unpriced position in 2010 is comprised primarily of month-to-month residential load and incremental commercial and industrial sales, Ragan added. For 2011, 38% of Reliant's expected retail sales are contracted and fully hedged.

Ragan reiterated NRG's desire to flatten Reliant's book, as NRG will match its generation length with Reliant's retail short position to maximize collateral efficiency and reduce transaction costs, while providing customers with physical generation that backstops Reliant's retail commitment. During the third quarter, NRG began to cross some of its generation length to hedge the heat rate exposure associated with its retail load obligation.

NRG boosted its 2009 adjusted EBITDA guidance for Reliant upward to $625 million from $400 million in its July 30 guidance. Since acquiring Reliant on May 1, NRG said that Reliant has produced adjusted EBITDA of $536 million. In five months of ownership, Reliant has generated more cash than the original purchase price, NRG said.

Total NRG adjusted EBITDA is forecast at $2.58 billion, meaning Reliant would account for 25% of the total, remarkable for a business that NRG did not even contemplate owning at this time a year ago, NRG CEO David Crane noted.

For 2010, NRG issued guidance of $500 million for Reliant's adjusted EBITDA, reflecting expectations of lower margins resulting from the prior price reductions and higher gas prices in 2010.

Crane also said that Reliant has developed a derivative-based instrument to hedge the gross margins Reliant may lose from lost loads in the case of a hurricane event, as well as any losses incurred for selling back excess power due to hurricane-related lost load. NRG said that the product is not insurance, but a derivative product that is tied to the cap bond market.

Turning to NRG's merchant generation fleet, its Texas assets recorded adjusted EBITDA (net MtM) of $404 million for the third quarter, down $61 million versus a year ago, due to lower gas prices. The combined impact of lower power prices and fuel costs resulted in $63 million of lower quarter-over-quarter energy margins.

Adjusted EBITDA for NRG's Northeast assets was $27 million higher at $168 million, driven by a $63 million increase in realized margin per MWh due to portfolio hedging and $18 million in higher contract revenues due to lower cost to serve load obligations. Partially offsetting these gains was a $45 million decrease in margin from lower volume.

On a consolidated basis, NRG reported adjusted EBITDA of $906 million, up from $682 million a year ago. Net income was $278 million for the quarter, versus $778 million a year ago, as the year-ago quarter benefited from $824 million of pretax net mark-to-market gains on asset-backed hedges.

First Choice ... *from 1*

and that efforts continue at the PUCT and with other REPs to change market rules, "so that all customer prices don't have to go up to reflect those that don't pay their bills."

Partially offsetting these gains was a $2.3 million decline from increased marketing costs related to First Choice's customer retention and acquisition programs. The benefit from higher margins was partially offset by a 5% drop in sales volume, due in part to lower customer accounts reflecting First Choice's strategy to focus on higher credit quality customers.

Customer count was down both versus the year-ago total, and the total as of June 30, 2009. First Choice reported 232,100 customers as of September 30, 2009, down from 243,300 as of June 30, 2009, and 233,800 versus September 30, 2008 (see chart for operating revenue and sales by class).

PNM Resources maintained its outlook for ongoing EBITDA at $55-60 million at First Choice, as it anticipates a slight loss in the fourth quarter due to reduced seasonal usage, though it expects the loss to narrow from the year-ago loss. Ongoing EBITDA at First Choice for the first nine months of 2009 was $62.7 million.

First Choice expects fourth quarter bad debt to exceed amounts seen in the third quarter as bills for high summer usage and any deferrals come due, but said that bad debt should be lower than the level seen in the fourth quarter of 2008.

Going forward, Sterba expects margins to compress, consistent with First Choice's expectations last quarter. First Choice President Brian Hayduk reported that margins were north of $40/MWh on a portfolio basis, versus the historic margins of the mid-$20 range. Hayduk expects margins to trend towards the historic range through 2010. First Choice through 2009 has significantly reduced rates on five occasions for a drop of over 20% on some products.

Asked by an analyst concerning First Choice's margin outlook versus the relatively steady outlook reported by Reliant Energy yesterday, Sterba estimated that Reliant's customer base is about 40% commercial, versus 20% commercial at First Choice, with commercial rates typically seeing more stable margins. Additionally, Sterba noted that the Houston zone, where Reliant's base is concentrated, can command premium pricing because of locational constraints. PNM said that reduced margins in 2010 are expected to negatively impact First Choice Power by about $19-22 million.

Hayduk also said that First Choice expects to record a small amount of customer growth in 2010 as it completes its transition away from lower credit quality customers, though the growth is not expected to exceed 10%.

PNM's equity in Optim Energy net ongoing earnings was $4.5 million compared with $200,000 in the 2008 quarter. PNM's equity in the net GAAP earnings of Optim Energy was $4.2 million, compared to losses of $900,000 a year ago. Improved financial performance resulted from the addition of Cedar Bayou 4, favorable hedge positions, Twin Oaks Power fuel savings, and operational cost reductions.

First Choice Operating Revenues *(in millions)*

Three Months Ended September 30,	2009	2008	Change
Residential	$ 110.3	$ 144.9	$ (34.6)
Mass-market	6.6	16.7	(10.1)
Mid-market	37.3	42.7	(5.4)
Trading gains (losses)	-	0.1	(0.1)
Other	5.2	10.6	(5.4)
	$ 159.4	$ 215.0	$ (55.6)

First Choice Sales *(in GWh)*

Three Months Ended September 30,	2009	2008	Change
Residential	781.2	772.9	8.3
Mass-market	38.3	73.1	(34.8)
Mid-market	304.7	340.8	(36.1)
Other	2.1	2.7	(0.6)
	1,126.3	1,189.5	(63.2)