WHITE PAPER

Defining the Need for the Energy Quotation and Contract Management Software Category

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January 20, 2009

Contents

Introduction

The emergence of highly competitive retail energy markets over the last decade or so has brought with it a number of key new business requirements; particularly in the area of retail energy quotation and contract management. Retail energy companies or the business functions within Utilities that provide retail energy services now require much more comprehensive support for a variety of functions that are associated with retail energy quotation, contracts, and billing. These business functions include, for example, pricing and quotation, customer registration and billing. Typically, these business functions are not properly catered for in an integrated, flexible and usable manner within the Customer Information Systems (CIS), Customer Relationship Management (CRM) systems or indeed, Trading and Management (TRM) systems utilized by these firms. A recent survey of the industry by UtiliPoint International, Inc. supports this conclusion and strongly suggests that these requirements form a new, yet poorly defined, Application Area.

In highly competitive retail energy markets, utility companies must be capable of acting swiftly and accurately in order to attract and retain new customers. This requires both an ability to ensure that customer pricing reflects market conditions and risks, as well as the need to continually adapt to changing market conditions. Those that can act speedily and accurately to provide competitive but profitable price quotes backed up with superior customer service reflected in accurate bills, streamlined customer registration along with support for different pricing models and contract terms will both survive and thrive. But UtiliPoint's recent survey shows that most utilities and retailers are hampered by poorly designed and inflexible home grown solutions sandwiched between their CIS and TRM software packages.

A Patchwork Quilt?—UtiliPoint's Survey Findings

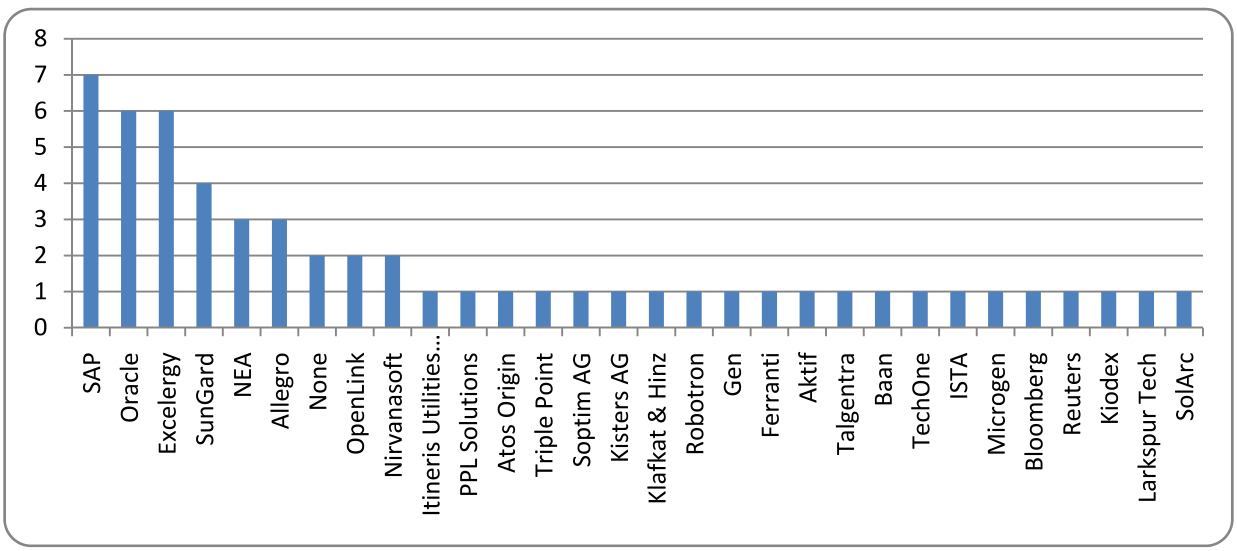
Perhaps the overarching conclusion of the UtiliPoint survey is simply that energy Quotation and Contract Management is both an ill-defined and poorly supported Application Area in the average Utilities' business and IT infrastructure.

Most companies today utilize custom patchwork quilts of functionality that incorporate aspects of their CIS and TRM software stitched together with Excel spreadsheets or home-grown applications that do not support the entire life cycle of requirements. This Application Area is both ill-defined and immature. However, the survey surprisingly shows that few, if any utilities are enjoying the capabilities of a truly integrated, end-to-end solution that would offer them competitiveness, flexibility and superior customer service. In highly competitive retail markets characterized by highly volatile wholesale price movements, retailers need to be able to price contracts effectively and hedge out any associated risks while still offering customers an attractive proposition. Failure to do so has seen several smaller retailers exit the Texas retail market recently.

The first indication that the energy Quotation and Contract Management Application Area is poorly defined is indicated by the large and diverse range of solutions named by the survey's respondents as providing solutions in the area. In fact, the three most widely cited vendors/products quoted by the respondents are all in fact CIS software products that may be deemed to overlap into the retail energy Quotation and Contract Management system category but not actually support it. But, overall, the large number of vendors and products mentioned by respondents included various CIS software solutions, Energy Trading & Risk Management solutions and a number of smaller regional providers (Figure 1).

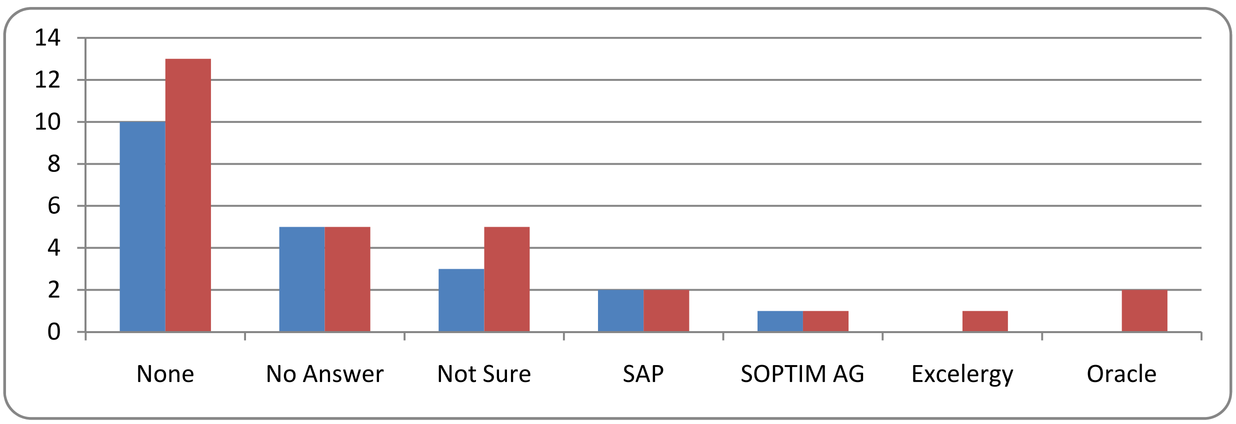
The relative immaturity of the software category is again indicated in terms of the respondent's views on market leadership. By far the largest proportion of respondents believe there to be NO market leader, could not provide an answer or simply did not know (Figure 2).

Figure 1:
First to Mind Vendors and Products in the Retail Energy Pricing, Quotation and Contract Management System Category



Yet a further indication of the software categories' immaturity lies in the installed base represented by the study respondents. Here, home-grown solutions dominate and there are a large number of small numbers of installs by a wide range of vendors (Figure 3). This represents a classical 'virgin' market in which the vast majority of companies feel they need to resort to home-grown or Excel spreadsheet solutions due to a perceived lack of commercially available products that, in their view, can provide the required functionality. In part, this perception may be based on a lack of knowledge of available solutions but it may also be due to the regional nature of retail markets and the different functional requirements in each.

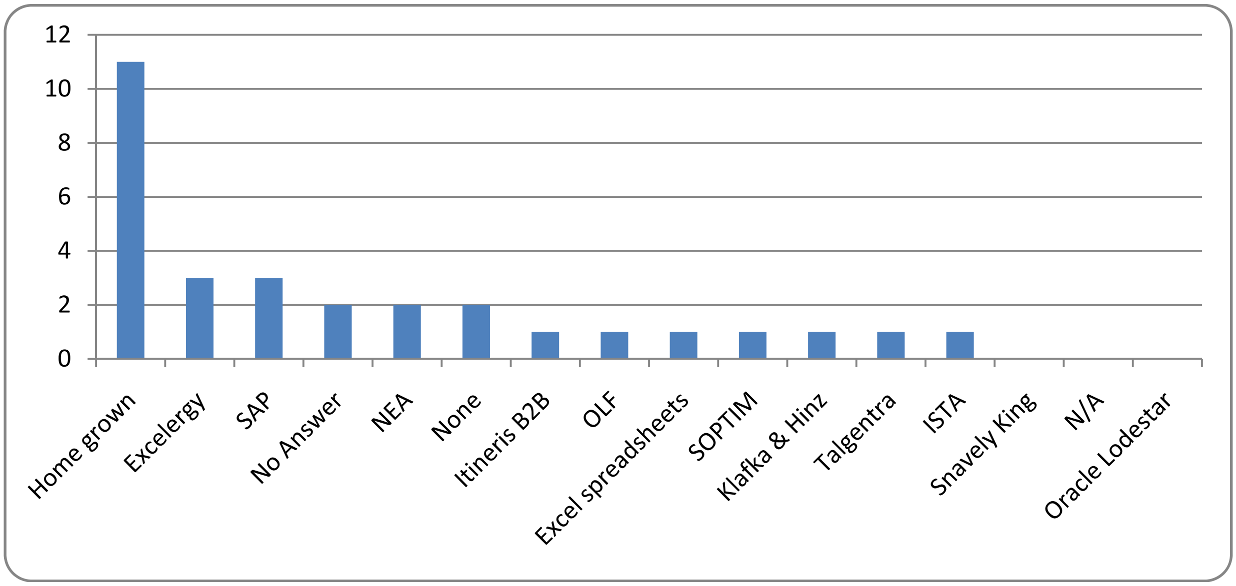
Figure 2:
Market Leadership Perceptions
(Blue – Energy Companies Only, Red – All Respondents)



A fair proportion of users rely upon multiple solutions to obtain the required functionality. These solutions largely comprise of a mixture of home-grown, Excel spreadsheets, a CIS system and an ETRM solution. Again, this is a sign of an immature software category and somewhat typical of a 'virgin' market where users utilize components of other more mature software categories (CIS and ETRM) along with custom pieces of functionality. Essentially many Utilities are writing and supporting costly, inflexible and cumbersome custom applications and interfaces where there is no real need to do so.

As might be expected, this situation does not translate into much enthusiasm on the part of the users for their current systems as almost half of the respondents reported that they were not satisfied with the current solution. But the survey offered a number of other failings and reasons for this level of dissatisfaction too.

Figure 3:
Installed Base among Participants



A key requirement of an energy Quotation and Contract Management system must be to support the supply registration/nomination process in their markets. Each market of course has a different registration process and system adding complexity and incorporates a number of key process steps such as Registration/Deregistration and Meter readings. Almost 60 percent of the respondent's to the study indicated that their current solution could not adequately support this important aspect of their business (Figure 4).

Other reasons for dissatisfaction include the respondent's installed systems inability to integrate to other critical systems involved in the process including either the Billing system or the TRM system. 38 percent of respondent's solutions did not integrate with their billing software and 43 percent of respondent's installed solutions did not integrate with their TRM software. The survey also found that 36 percent of the respondents installed solutions did not support the full cycle of business functions required to support their Quotation and Contract Management activities.

But the most revealing aspect of the survey lies in the respondent's views on their current systems flexibility where 25 percent of all respondents indicated that their current solution was not very flexible when it came to adapting to business change. Plainly, in highly competitive retail energy markets where regulations change, customer needs change and the competitive landscape evolves, flexibility and adaptability is a key requirement of the solution used. The UtiliPoint study shows just how important flexibility is to respondents when they were asked what features and functions would be important to them if procuring a new solution (Figure 5).

Figure 4:
Ability to Support the Supply
Registration/Nomination Process in Their Markets

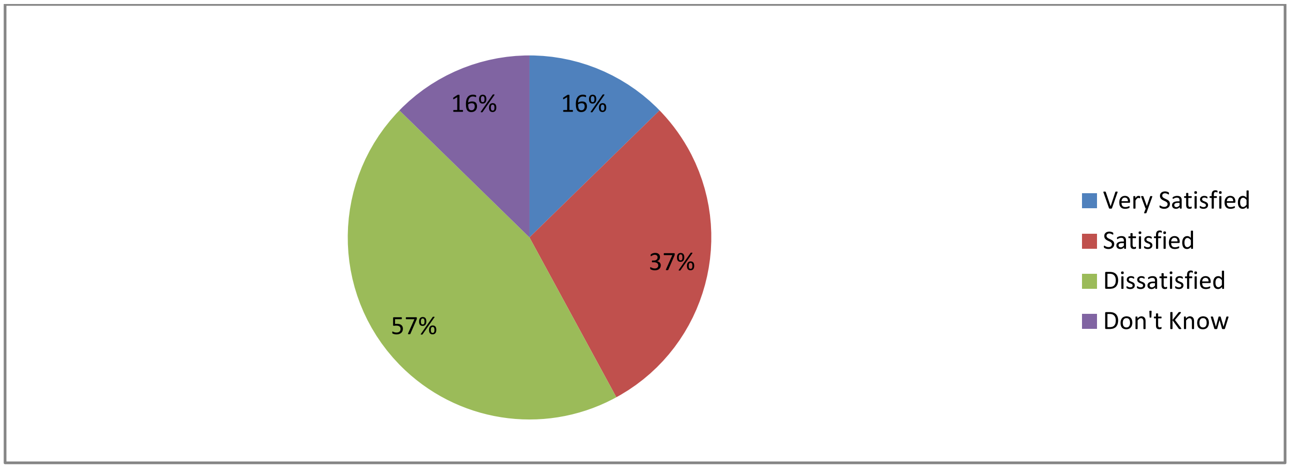
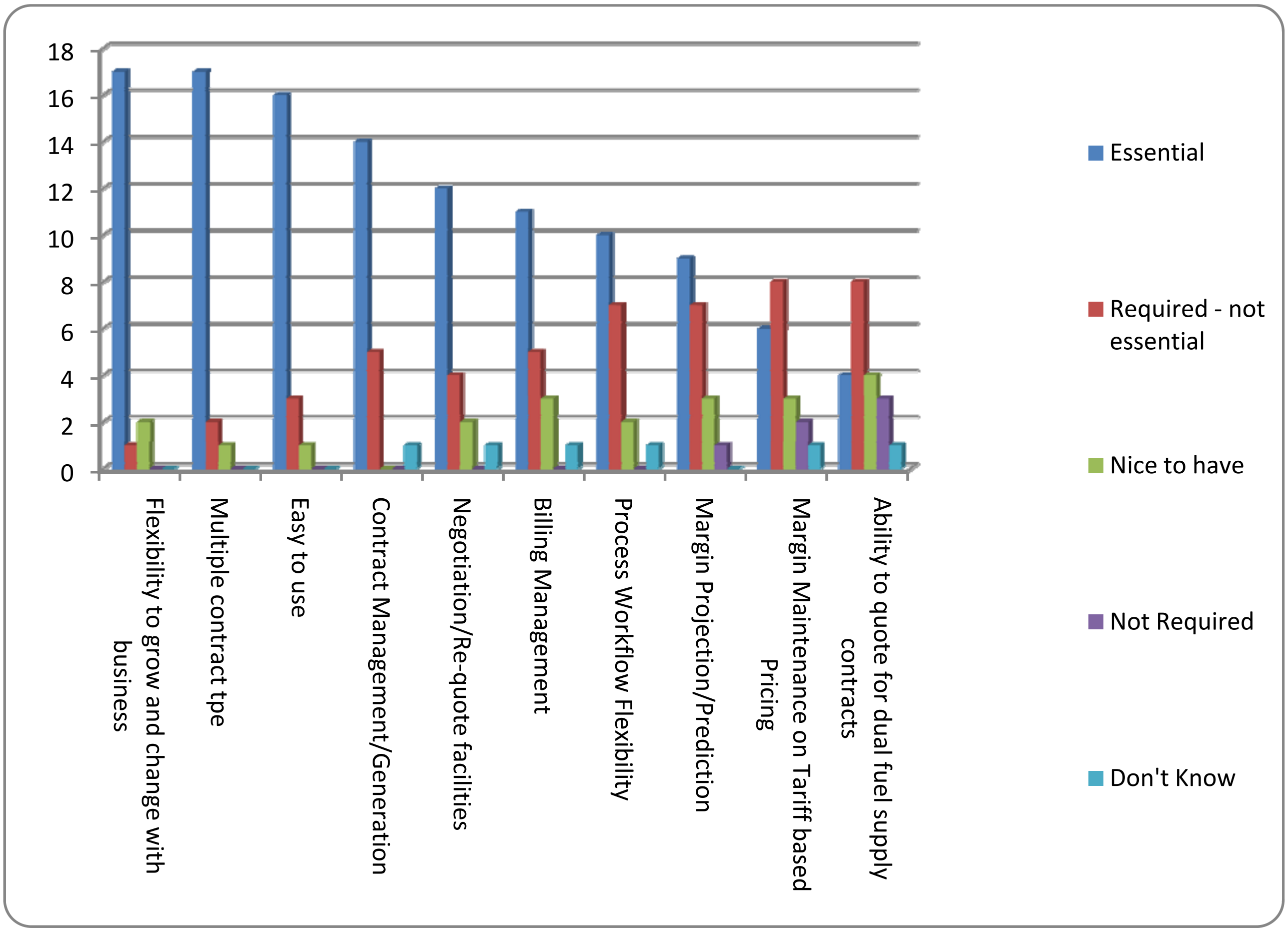


Figure 5:
Ranking of Features and Functions Desired in a New Solution



Prospective buyers are in fact seeking a solution that is primarily flexible and adaptable, easy to use and supports the key business functions in an end-to-end configuration. Unfortunately, the study also suggests that prospective buyers are unaware of any such commercially available package in the market and are thus forced to rely on suboptimal and expensive to maintain custom solutions. The fact that there is demand for such a commercially available solution is also demonstrated by the 15 percent of respondents who plan to replace their solution in the next 12-months and further 25 percent or respondents who might replace their solution in that time frame.

Summary of UtiliPoint Survey Results

Overall the survey suggests that the retail energy Quotation and Contract Management system software area is relatively immature and poorly defined. Solutions most often used by respondents have a high level of custom, home-grown content and the application area appears to be one that represents a functionality gap between traditional CIS and ETRM software.

In that respect, many respondents have filled the gap with a home-grown or Excel-based solution. The immaturity of the software category/application area is also shown by the range of vendors and solutions mentioned in the survey, apparent confusion on the part of the respondents around who might provide solutions and the high replacement rates indicated by the survey.

A high proportion of the respondents are rightly dissatisfied with their current solutions. However, the true level of satisfaction may well be lower than indicated as many are utilizing custom and home grown applications which are specifically tailored to meet their specific needs and often come with a high-level of internal support. Such home-grown solutions are often very expensive to maintain and lack the flexibility required to deal with changes in requirements and are usually replaced if a mature commercially available solution is deemed to be available.

In seeking a new solution, respondents are first seeking a product that offers the flexibility to evolve with requirements, offers support for multiple contract types and, is easy to use among other features and functions.

The Need for a New Software Category

With the emergence of real retail competitive markets a new software requirement has emerged – that of retail energy quotation and contract management. Utilities and retailers can simply no longer operate on patchwork quilts of solutions to cover an essential component of their business but must seek fully integrated solutions from commercial software vendors that support the entire business process from bid to bill.

The volatility of wholesale markets and prices in recent years has accentuated this need. Retailers are potentially exposed to price volatility and must be able to hedge out that volatility while providing a customer some degree of price guarantee and superior customer service if they are to thrive. Already, a number of Texas-based retailers have exited the market, in part, due to their inability to manage the bid to bill process effectively such that they are afforded an adequate degree of transparency into their business. One solution on the market – PowerQuote+ from Microgen – represents a complete solution specifically designed to fill the software void around retail energy quotation and contract management business processes.

MicroGen's PowerQuote+—An Off the Shelf Solution

In fact, UtiliPoint is aware of an off the shelf solution for retail energy Quotation and Contract Management that has all of the functions and features that the study respondents and, by extrapolation, the industry is currently seeking. Microgen has pioneered an application designed to fill the gap between the CIS and TRM systems and essentially created a new software category in doing so. PowerQuote+ is the new and third-generation version of software that they have offered, licensed and supported for several years. Microgen's approach has been to define the entire life cycle for energy Quotation and Contract Management to build a suite of modules that can be offered fully integrated together or as stand-alone modules. PowerQuote+ modules include the following;

- Pricing Engine
- Registration
- Billing Engine
- E-Billing Services.

Pricing Engine

Microgen's PowerQuote+ enables the rapid and flexible configuration of costs and levies such as DuoS and TNUoS. These costs along with others such as raw energy costs, balancing and settlements related costs can easily be factored into any offer price. The module supports the flexibility required by energy retailers to include other premiums and risk mitigation costs components such as an imbalance charge. The Pricing Engine provides automated functionality to allow the salesperson to create offers in response to an opportunity to tender whether originating directly or via a Third Party Intermediary and provides full visibility to overheads and the profitability of all offers.

Registration

The PowerQuote+ Registration Module provides a supplier with 'automated' registration processing for high volume dataflow transactions, such as Registration / Deregistration Requests and Meter readings allowing the automatic receipt and generation of individual dataflow transactions based upon the currently recorded status of the customer, site and Supply Point. It can include the raising of exception events, such as the receipt of a registration objection, that require a manual decision to be made as to the response.

Billing Engine

The Billing Engine provides a low-cost billing solution by way of a HH/NHH monthly and quarterly bill line generation facility. It provides the functionality to calculate bill lines for both HH and NHH metered sites using information held within PowerQuote+ for customers, sites and meters in conjunction with the appropriate accepted offer, consumption details and actual market costs. The bill lines are then passed to a third party billing application or the E-Billing services for physical bill production. This approach ensures that whatever is priced using PowerQuote+ can be successfully billed, unlike many alternative billing solutions which effectively limit the types of price that can be produced.

E-Billing Services

The product can also provide Energy Retailers with a facility to provide a fully hosted E- billing service. This is a fully branded service which can be hosted on the user's corporate website. Print and Post options are also available.

Microgen's PowerQuote+ products value is in its integration and flexibility. The modules are fully integrated with one another and the product easily integrates with other solutions and systems used in the enterprise including the CIS and ETRM software. Supporting the full life cycle from 'bid to bill' (Figure 6), PowerQuote+ truly seems to define the Energy Quotation and Contract Management Software Category.

PowerQuote + Underlying Technology

Underpinning this powerful application is Microgen's Business Process Platform—Microgen Aptitude.

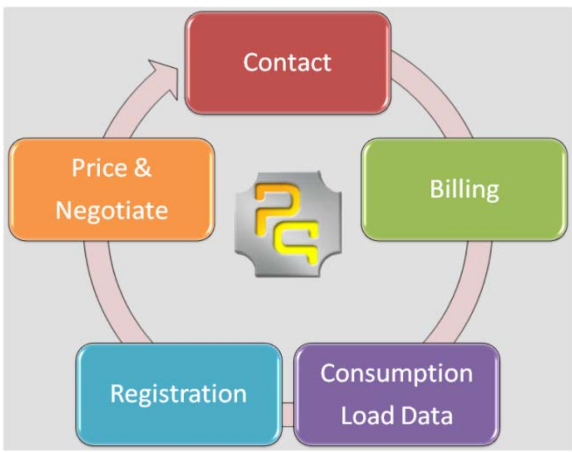
Microgen Aptitude provides full transaction process management with comprehensive transaction control, high-performance workflow management and a throughput capability of over 30,000 transactions per second. Importantly, while Microgen Aptitude promotes Straight Through Processing (STP) it also supports traditional batch data processing.

Some additional important characteristics of Microgen aptitude BPMS are listed below:

- Microgen Aptitude fully supports a Service Oriented Architecture (SOA) and offers Event Driven processing (EDA) in that its functions can respond to changes in states or 'events'.
- Microgen Aptitude provides support for very sophisticated Business Activity Monitoring (BAM)
- Microgen Aptitude provides strong Business Rules capabilities (both inference and calculation)

- Deployed Applications are configured by IT that can control amongst other things, security, deployment over multiple threads and servers, caching and recovery and restart.
- The IT user has complete control over connectivity to external systems such as databases, messaging systems and files.
- Strong integration facilities. Microgen Aptitude provides 5 levels of integrations capabilities.
    - Legacy System Integration
    - Library/DLL Integration
    - Web Services Integration.
    - Process Integration
    - Data integration

Figure 6:
PowerQuote+ Life Cycle Support



About Microgen and PowerQuote+

Microgen is a leading Information Management company with experience in developing solutions that require data and contract management, content distribution, commercial pricing, invoice reconciliations, reporting, exception processing and workflow. Microgen provides flexible, robust systems and quality support services to over 1,500 unique customers in over 40 countries. This includes many of the world's leading commercial, retail and financial services organizations, giving them real operational confidence and leading edge technology.

Within the Energy & Utilities Sector, Microgen has strong sector experience working with organisations such as British Energy, Centrica, Scottish Power and GasTerra to name a few. Microgen has also invested research and development effort specifically around providing modern & flexible Quotations and Contract Management Solutions.

Appendix - UtiliPoint Survey Demographics

The survey was conducted over the late summer and fall of 2008 electronically using UtiliPoint's email distribution lists and other industry lists. The electronic surveying was supplemented by telephone calls to industry people on those same lists by UtiliPoint to drive further responses. In total, we received 32 responses but only 29 were deemed to be valid responses by UtiliPoint.

The invalid responses either contained no actual data or lacked verifiable contact details. Of the 29 responses, 20 originated with various forms of energy companies and 9 from consultants and software vendors. For the vast majority of the analysis and reporting below, UtiliPoint only utilized the 20 energy company responses. In some instances both the total response and the energy company responses are both shown. The companies surveyed are based in both North America (14) and Europe (6).

Energy companies responding included:

- CGPL
- Eneco
- Texas Retail Energy, LLC
- University of Arkansas
- PPLSolutions
- WINGAS GmbH
- North Star Consulting
- Seminole Energy Services
- City of Medicine Hat
- Trianel European Energy Trading GmbH
- International Energy Group
- Liberty Power
- RBS Sempra Energy Europe
- FirstEnergy Solutions
- Stream Energy
- Emera
- Delta Energy
- Pepco Energy Services
- Integrys Energy

Companies deemed by UtiliPoint to represent 'energy' companies included utilities, retailers, end users, and generators. The respondents were generally all at the Manager level or more senior than that and represented a variety of departments from risk management through to customer service. They were based either in Europe or North America.

The energy companies represented in the study generally have a bias towards selling Natural Gas with some 45 percent selling Natural Gas only and a further 25 percent selling both Natural Gas and Electric Power (Figure A). The companies represented generally sell to a variety of customer types with Commercial and Industrial customers being very slightly the dominant type of customer (Figure B).

Figure A:
Does Your Company Sell?

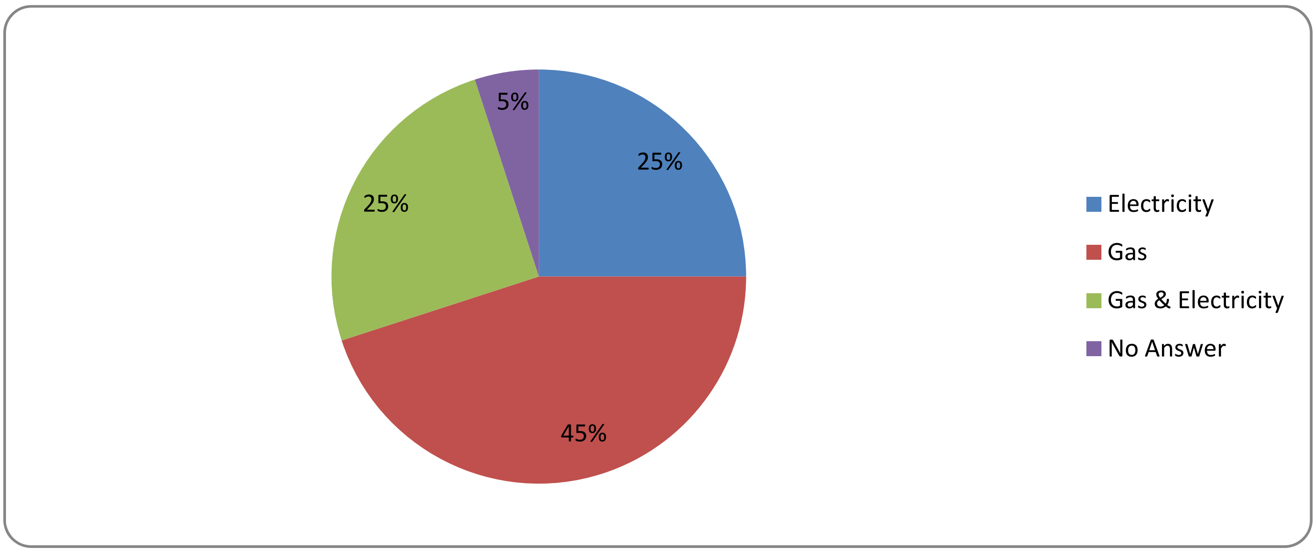
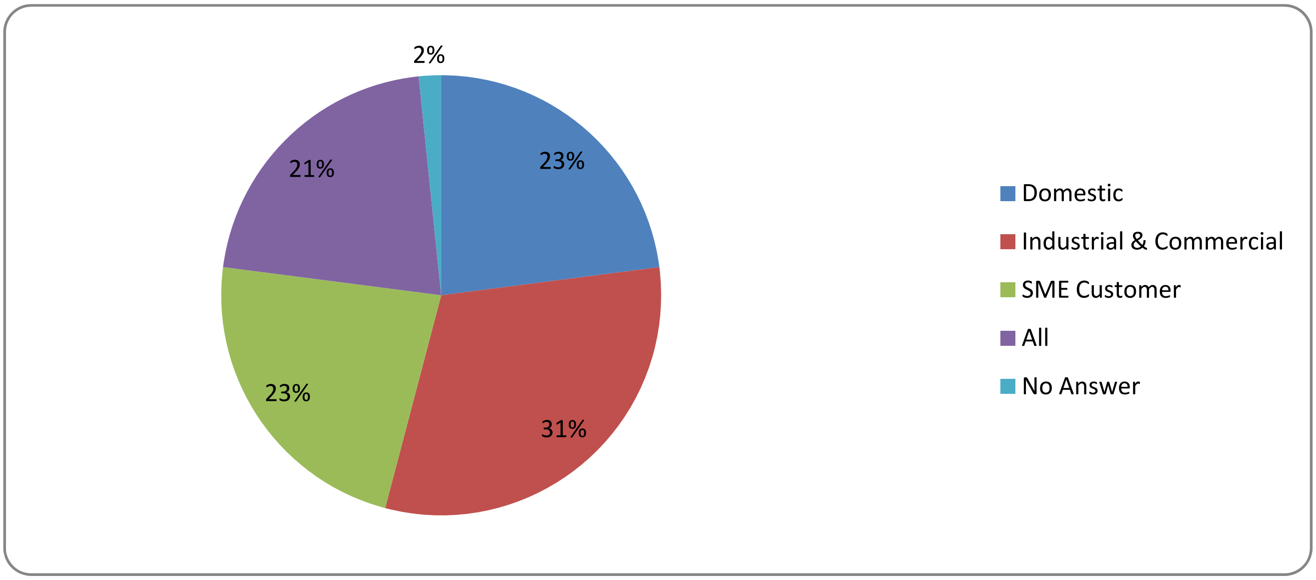


Figure B:
Do You Sell Energy To?



About UtiliPoint International, Inc.

UtiliPoint is a leader in providing analysis and consulting services to the energy and utility industry. Our 76-year history and over 500 clients worldwide have led us to currently operate as an energy and utility consulting and issues analysis firm. Our staff is comprised of leading utility and energy experts with diverse backgrounds in utility generation, transmission & distribution, retail markets, mergers and acquisitions, new technologies, investment capital, information technology, outsourcing, renewable energy, regulatory affairs, and international issues. www.utilipoint.com

About the White Paper's Author

Gary M. Vasey, Ph.D.
General Manager, UtiliPoint Europe

Dr. Gary M. Vasey is an energy industry expert noted for his analysis, consulting, marketing and branding skills. Gary currently manages UtiliPoint's European practice from our office in the Czech Republic. With over 22-years experience in the energy and utilities industry, Gary has experienced the industry's volatility as a geologist, consultant, software developer, analyst and marketing practitioner providing him with unique insights, not just into the entire energy value chain, but also into how to position, brand and deliver products and services to the industry. He is a noted expert on the energy trading, transaction and risk management software industry and an accomplished industry analyst and thought leader.

Gary has published more than 200 articles on energy and utility industry trends in a variety of publications, is a regular speaker at industry conferences and the co-editor of the UtiliPoint book *Trends in Energy Trading, Transaction and Risk Management Software - A Primer*. Most recently he contributed the two chapters to *The Professional Risk Managers' Guide to Energy and Environmental Markets* published by PRMIA and two chapters, co-written with Peter C. Fusaro, to *Weather, Energy and Environmental Hedging - An Introduction* (ICFAI University Press, 2007) edited by Amando F C Da Silva.

Gary is also the co-founder of the Energy Hedge Fund Center (www.energyhedgefunds.com) and the co-author of *Energy & Environmental Hedge Funds - The New Investment Paradigm* (Wiley, 2006) with Peter C. Fusaro and of many trade press articles on hedge funds in the energy industry. He and Mr. Fusaro are also the joint editors of **Energy*Hedge***, an electronic newsletter published by the Energy Hedge Fund Center.

Gary holds a B.Sc. (Hons.) degree in Geological Sciences from the University of Aston in Birmingham, England and a Ph.D. in Geology from the University of Strathclyde, Scotland.