

Energy Choice Matters

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AEG Affiliated Energy Group Shopping Customer Book in ERCOT, Northeast

AEG Affiliated Energy Group has been retained by a retail electricity provider seeking a well capitalized purchaser of its customer portfolio and certain related assets.

The book, which includes accounts in ERCOT and the Northeast, consists of residential electricity customers, roughly two-thirds of which are under fixed price contracts. Additionally, the book includes both post-pay and prepay (using advanced meters) accounts.

"Our client presents an attractive opportunity to enter or expand into the mass market retail electricity space with a small but attractive customer portfolio," said Chad Price, Executive Vice President of AEG's Commercial Energy Division. "The company has a reliable system to enroll, serve and manage post-pay and prepay customers in Texas and other markets," Price said.

"The billing and data-management systems of AEG's client are scalable, having an established history and having been built to support electricity and gas customer portfolios in deregulated markets," added Rob Potosky, Esq., Head of AEG's M&A Practice. "This client's systems present a strong opportunity for a party to enter or expand into the post pay and/or prepay retail energy business by starting with a manageable book and a reliable technology platform."

Potosky also said that the supplier is forecast to have significant positive EBITDA for 2011. AEG expects a sale to be completed by end of September 2011.

Commenting on the increased M&A activity in the retail energy sector, Potosky said that potential buyers are providing more fair valuations of books as the retail markets have matured. Unlike roughly three years ago, when most sales were distressed assets, Potosky noted that the current climate is producing more "win-win" situations for buyers and sellers.

Several scenarios are driving buyers and sellers to examine M&A but Potosky cited, in particular, an interest from smaller retail providers, whose current size and business model means profits may largely be going to the retailer's wholesale supplier and various other vendors. Such providers see consolidation, particular with a partner which could also step into the supply role, as better preserving earnings, Potosky said.

Regarding greater interest in aligning retail obligations with physical generation assets, Potosky said that retail providers' interest in buying assets represents a change in mentality in the market. Furthermore, even in currently integrated companies with competitive generation and retail supply, Potosky noted a shift in strategy (and internal power) to the retail side of the business, as management sees that side of the business as driving earnings.

AEG Affiliated Energy Group said that it recently closed another M&A transaction involving a different mass market retail energy provider a few weeks ago, as the purchaser's advisor, but could not disclose details at this time.