A-125138

PARTS OF CASE PREVIOUSLY

SCANNED

CAPTION SHEET CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00
2. BUREAU: FUS
3. SECTION(S):
4. PUBLIC MEETING DATE: 00/00/00
5. APPROVED BY:
DIRECTOR:
SUPERVISOR:
6. PERSON IN CHARGE:
7. DATE FILED: 04/08/05
8. DOCKET NO: A-125138
9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: COMMERCE ENERGY, INC

COMP/APP COUNTY: UTILITY CODE: 125138

ALLEGATION OR SUBJECT

JOINT PETITION/APPLICATION OF ACN ENERGY, INC., AND COMMERCE ENERGY,INC., FOR APPROVAL TO TRANSFER NATURAL GAS SUPPLIER LICENSE FROM ACN ENERGY, INC., TO COMMERCE ENERGY, INC. DOCKET NUMBERS: ACN ENERGY A-125014F2000 AND COMMERCE ENERGY, A-125138.

McNees Wallace & Nurick LLC
attorneys at law

ORIGINAL

DOCUMENT
FOLDER

DERRICK PRICE WILLIAMSON
DIRECT DIAL: (717) 237-5446
E-MAIL ADDRESS: DWILLIAMSON@MWN.COM

April 8, 2005

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA HAND DELIVERY

A-125138

RE: Application of Commerce Energy, Inc., for Approval to Offer, Render, Furnish, or Supply Natural Gas Service as a Natural Gas Supplier to the Public in the Commonwealth of Pennsylvania; Docket No. _____

Dear Secretary McNulty:

Please find enclosed for filing the original and three (3) copies of the Application of Commerce Energy, Inc. ("Commerce Energy") for Approval to Offer, Render, Furnish, or Supply Natural Gas Service as a Natural Gas Supplier to the Public in the Commonwealth of Pennsylvania. Also enclosed is a check in the amount of $350.00, in the nature of an application fee, with respect to this Application. Please note that the Applicant respectfully requests expedited treatment of the Application and Commission action on the Application at either the May 5, 2005, or May 20, 2005, Public Meeting.

Pursuant to Commission requirements, all necessary parties have been served with a copy of this Application, as evidenced by the attached Certificate of Service. Please date stamp the enclosed copy of this transmittal letter and kindly return it for our filing purposes. Thank you.

Sincerely,

McNEES WALLACE & NURICK LLC

By _____
Derrick Price Williamson
Charis Mincavage

Counsel to Commerce Energy, Inc.

Enclosures
c: James Shurskis, Bureau of Fixed Utility Services (via hand delivery)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below, in accordance with the requirements of Section 1.54 (relating to service by a participant).

VIA FIRST-CLASS MAIL

Irwin A. Popowsky
Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17120-1921

William Lloyd
Commerce Building, Suite I I 02
Office of Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Commonwealth of Pennsylvania
Department of Revenue
Bureau of Compliance
Harrisburg, PA 17128-0946

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Kevin Carrabine
PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699

Charis Mincavage

Dated this 8th day of April, 2005, in Harrisburg, Pennsylvania.

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Commerce Energy, Inc., for Approval to Offer, Render, Furnish, or Supply Natural Gas Service as a Natural Gas Supplier to the Public in the Commonwealth of Pennsylvania	:	Application Docket: A-125138

APPLICATION OF
COMMERCE ENERGY, INC.

Derrick Price Williamson
Charis Mincavage
McNees Wallace & Nurick LLC
100 Pine Street
Harrisburg, PA 17108
Tele.: 717.232.8000
Fax: 717.237.5300

Counsel to Commerce Energy, Inc.

Dated: April 8, 2005

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of **Commerce Energy, Inc.**, for approval to offer, render, furnish, or supply natural gas supply services as a Natural Gas Supplier to the public in the Commonwealth of Pennsylvania.

To the Pennsylvania Public Utility Commission:

1. **IDENTITY OF THE APPLICANT:** The name, address, telephone number, and FAX number of the Applicant are:

Commerce Energy, Inc.
600 Anton Boulevard
Suite 2000
Costa Mesa, CA 92626

Telephone: 714.259.2500
Facsimile: 714.259.2501

Please identify any predecessor(s) of the Applicant and provide other names under which the Applicant has operated within the preceding five (5) years, including name, address, and telephone number.

See Attachment A, the Joint Petition of ACN Energy, Inc., and Commerce Energy, Inc., for Approval to Transfer a Natural Gas Supplier License from ACN Energy, Inc., to Commerce Energy, Inc. ("Joint Petition"). The Joint Petition sets forth the substantive information regarding this issue.

2. a. **CONTACT PERSON:** The name, title, address, telephone number, and FAX number of the person to whom questions about this Application should be addressed are:

Derrick Price Williamson, Esq.
Charis Mincavage, Esq.
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Telephone: 717.232.8000
Facsimile: 717.237.5300

b. **CONTACT PERSON-PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY:** The name, title, address telephone number and FAX number of the person with whom contact should be made by PEMA:

Anthony Cusati, III
Commerce Energy, Inc.
32991 Hamilton Court
Farmington Hills, MI 48334

Telephone: 248.699.3481
Facsimile: 703.935.1267

3.a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are:

Derrick Price Williamson, Esq.
Charis Mincavage, Esq.
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Telephone: 717.232.8000
Facsimile: 717.237.5300

b. **REGISTERED AGENT:** If the Applicant does not maintain a principal office in the Commonwealth, the required name, address, telephone number and FAX number of the Applicant's Registered Agent in the Commonwealth are:

CT Corporation
1515 Market Street, #1210
Philadelphia, PA 19102

Telephone: 215.563.7750

4. **FICTITIOUS NAME:** (select and complete appropriate statement)

☐ The Applicant will be using a fictitious name or doing business as *("d/b/a"):*

Attach to the Application a copy of the Applicant's filing with the Commonwealth's Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

Or

☒ The Applicant will not be using a fictitious name.

5. **BUSINESS ENTITY AND DEPARTMENT OF STATE FILINGS:** (select and complete appropriate statement)

☐ The Applicant is a sole proprietor.

If the Applicant is located outside the Commonwealth, provide proof of compliance with 15 Pa. C.S. §4124 relating to Department of State filing requirements.

or

☐ The Applicant is a:

☐ domestic general partnership (*)
☐ domestic limited partnership (15 Pa. C.S. §8511)
☐ foreign general or limited partnership (15 Pa. C.S. §4124)
☐ domestic limited liability partnership (15 Pa. C.S. §8201)
☐ foreign limited liability general partnership (15 Pa. C.S. §8211)
☐ foreign limited liability limited partnership (15 Pa. C.S. §8211)

Provide proof of compliance with appropriate Department of State filing requirements as indicated above.

Give name, d/b/a, and address of partners. If any partner is not an individual, identify the business nature of the partner entity and identify its partners or officers.

☐ If a corporate partner in the Applicant's domestic partnership is not domiciled in Pennsylvania, attach a copy of the Applicant's Department of State filing pursuant to 15 Pa. C.S. §4124.

or

☒ The Applicant is a:

☐ domestic corporation (none)
☒ foreign corporation (15 Pa. C.S. §4124)
☐ domestic limited liability company (15 Pa. C.S. §8913)
☐ foreign limited liability company (15 Pa. C.S. §8981)
☐ Other _____

Provide proof of compliance with appropriate Department of State filing requirements as indicated above. **See Attachment B.** Additionally, provide a copy of the Applicant's Articles of Incorporation. **See Attachment C, which provides a copy of the Articles of Incorporation of Commonwealth Energy Corporation. See also Attachment D, which provides an Amendment to the Articles of Incorporation referencing the name change from Commonwealth Energy Corporation to Commerce Energy, Inc.**

Give name and address of officers.

Peter Weigand, President
600 Anton Boulevard, Suite 2000, Costa Mesa, CA 92626

Richard Boughrum, Chief Financial Officer, Treasurer, and Secretary
600 Anton Boulevard, Suite 2000, Costa Mesa, CA 92626

The Applicant is incorporated in the state of California. **See Attachment C, which provides a copy of the Articles of Incorporation of Commonwealth Energy Corporation. See also Attachment D, which provides an Amendment to the Articles of Incorporation referencing the name change from Commonwealth Energy Corporation to Commerce Energy, Inc.**

6. **AFFILIATES AND PREDECESSORS WITHIN PENNSYLVANIA:** (select and complete appropriate statement)

[X] Affiliate(s) of the Applicant doing business in Pennsylvania are:
Give name and address of the affiliate(s) and state whether the affiliate(s) are jurisdictional public utilities.

See Attachment A, which provides information regarding this issue.

[X] Does the Applicant have any affiliation with or ownership interest in:

(a) any other Pennsylvania retail natural gas supplier licensee or licensee applicant,
(b) any other Pennsylvania retail licensed electric generation supplier or license applicant,
(c) any Pennsylvania natural gas producer and/or marketer,
(d) any natural gas wells or
(e) any local distribution companies (LDCs) in the Commonwealth

If the response to parts a, b, c, or d above is affirmative, provide a detailed description and explanation of the affiliation and/or ownership interest.

See Attachment A for a detailed description and explanation of the affiliate interests.

[ ] Provide specific details concerning the affiliation and/or ownership interests involving:

(a) any natural gas producer and/or marketers,
(b) any wholesale or retail supplier or marketer of natural gas, electricity, oil, propane or other energy sources.

Not applicable.

[X] Provide the Pa PUC Docket Number if the applicant has ever applied:

(a) for a Pennsylvania Natural Gas Supplier license, or
(b) for a Pennsylvania Electric Generation Supplier license.

See Attachment A for information regarding this issue.

☐ If the Applicant or an affiliate has a predecessor who has done business within Pennsylvania, give name and address of the predecessor(s) and state whether the predecessor(s) were jurisdictional public utilities.

Not applicable.

or

☒ The Applicant has no affiliates doing business in Pennsylvania or predecessors which have done business in Pennsylvania.

See Attachment A for information regarding this issue.

7. **APPLICANT'S PRESENT OPERATIONS:** (select and complete the appropriate statement)

☒ The Applicant is presently doing business in Pennsylvania as a

☐ natural gas interstate pipeline.
☐ municipal providing service outside its municipal limits.
☐ local gas distribution company
☐ retail supplier of natural gas services in the Commonwealth
☐ a natural gas producer
☒ Other. (Identify the nature of service being rendered.)

Commonwealth Energy Company d/b/a electricAmerica, Inc., is doing business in Pennsylvania as an Electric Generation Supplier in the PECO Energy Company service territory. The entity is being renamed Commerce Energy, Inc. See Attachment A.

or

☐ The Applicant is not presently doing business in Pennsylvania.

8. **APPLICANT'S PROPOSED OPERATIONS:** The Applicant proposes to operate as a:

☒ Supplier of natural gas services.
☐ Municipal supplier of natural gas services.
☐ Cooperative supplier of natural gas services.
☐ Broker/Marketer engaged in the business of supplying natural gas services.
☐ Aggregator engaged in the business of supplying natural gas services.
☐ Other (Describe):

9. **PROPOSED SERVICES:** Generally describe the natural gas services which the Applicant proposes to offer.

Commerce Energy, Inc., intends to engage in the retail sale of natural gas in the residential, commercial, and industrial markets in PECO Energy Company's service territory. See Attachment A for additional information.

10. **SERVICE AREA:** *Generally describe the geographic area in which Applicant proposes to* offer services.

Commerce Energy, Inc.'s, marketing area will initially encompass the entirety of PECO Energy Company's service territory.

11. **CUSTOMERS:** Applicant proposes to initially provide services to:

- ☐ Residential Customers
- ☐ Commercial Customers - (Less than 6,000 Mcf annually)
- ☐ Commercial Customers - (6,000 Mcf or more annually)
- ☐ Industrial Customers
- ☐ Governmental Customers
- ☒ All of above
- ☐ Other (Describe):

12. **START DATE:** The Applicant proposes to begin delivering services **upon receipt of its Natural Gas Supplier license from the Pennsylvania Public Utility Commission.**

13. NOTICE: Pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14, serve a copy of the signed and verified Application with attachments on the following:

Irwin A. Popowsky
Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17120-1921

William Lloyd
Commerce Building, Suite I I 02
Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Commonwealth of Pennsylvania
Department of Revenue
Bureau of Compliance
Harrisburg, PA 17128-0946

Any of the following Natural Gas Distribution Companies through whose transmission and distribution facilities the applicant intends to supply customers:

NUI Valley Cities Gas (NUI Transportation Services) Mike Vogel P0 Box 31 75 Union, NJ 07083-1975 PH: 908.289.S000ext.5441 FAX: 908.2898.6444	National Fuel Gas Distribution Corp. Paul R. Mundy 1 0 Lafayette Square Buffalo, NY 14203 PH: 716.857.7756 FAX: 716.857.7479 e-mail: mundyp@natfuel.com
Penn Fuel [North Penn Gas Company & Penn Fuel Gas] Jim Evans or Tom Olsen 2 North 9th Street GENA94 Allentown, PA I8101 PH: 610.774.7981 610.774.4975 FAX: 610.774.5694 610.774.4975 e-mail: jevans@papl.com or teolson@papl.com	The Peoples Natural Gas Company Joe Gregorini or Bill McKeown 625 Liberty Avenue Pittsburgh, PA 15222 e-mail: jgregorini~png.cng.com PH: 412.497.6851 or 412.497.6840 FAX: 412.497.6630
T. W. Phillips Gas and Oil Company Robert M. Hovanec 205 North Main Street Butler, PA 16001 PH: 724.287.2725 FAX: 724.287.5021 e-mail: rhovanec@twphillips.com	UGI Chris Brown or Bob Krieger P0 Box 12677 or 225 Morgantown Rd. Reading, PA 15222 Reading, PA 15222 PH: 610.796.3425 PH: 610.796.3516 FAX: 610.796.3559
PG Energy Richard N. Marshall or Wendy K. Saxe One PEI Center Wilkes-Barre, PA I 871 1-0601 e-mail: marshall@pgenergy.com or saxe@pgenergy.com PH: 570.829.8795 FAX: 570.829.8652	Equitable Gas Company Antionette Litchy 200 Allegheny Center Mall Pittsburgh, PA I 5212-5352 PH: 412.395.3117 FAX: 412.395.3156
Carnegie Natural Gas Company Donald A. Melzer 800 Regis Avenue Pittsburgh, PA 19236 PH: 412.655.8510 ext. 331 FAX: 412.655.0335	Columbia Gas of PA, Inc. Erich Evans or Heather Bauer 200 Civic Center Drive Columbus, OH 43215 PH: 614.460.6254 or 614.460.5554 FAX: 614.460.4291
Philadelphia Gas Works Eric Burgis 800 West Montgomery Avenue Philadelphia, PA 19122 email: eric.burgis@pgworks.com PH: 215.684.6907 FAX: 215.684.6564	PECO Kevin Carrabine 300 Front Street Building 2 Conshohocken, PA 19428 PH: 610.832.6413

Pursuant to Sections 1 .57 and I .58 of the Commission's Regulations, 52 Pa. Code §§1 .57 and 1.58, attach Proof of Service of the Application and attachments upon the above named parties. Upon review of the Application, further notice may be required pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14.

14. **TAXATION:** Complete the TAX CERTIFICATION STATEMENT attached as Appendix B to this application.

A completed Tax Certification Statement is attached hereto at Attachment E.

15. **COMPLIANCE:** State specifically whether the Applicant, an affiliate, a predecessor of either, or a person identified in this Application has been convicted of a crime involving fraud or similar activity. Identify all proceedings, by name, subject and citation, dealing with business operations, in the last five (5) years, whether before an administrative body or in a judicial forum, in which the Applicant, an affiliate, a predecessor of either, or a person identified herein has been a defendant or a respondent. Provide a statement as to the resolution or present status of any such proceedings.

Commerce Energy, Inc. (Commonwealth Energy Corporation d/b/a electricaAmerica, Inc.), has been fully compliant as an Electric Generation Supplier in Pennsylvania. In July 2001, the Public Utilities Commission of California issued an order approving a settlement entered into by Commonwealth Energy Corporation. The settlement resolved issues raised in an Investigation instituted in 1999 in which Commonwealth Energy Corporation was the Respondent. Since that time, Commonwealth Energy Corporation has been fully compliant in California. As noted above, Commerce Energy, Inc., has served as an EGS in Pennsylvania since 1999 without sanction or investigation.

16. **STANDARDS, BILLING PRACTICES, TERMS AND CONDITIONS OF PROVIDING SERVICE AND CONSUMER EDUCATION:** All services should be priced in clearly stated terms to the extent possible. Common definitions should be used. All consumer contracts or sales agreements should be written in plain language with any exclusions, exceptions, add-ons, package offers, limited time offers or other deadlines prominently communicated. Penalties and procedures for ending contracts should be clearly communicated.

a. Contacts for Consumer Service and Complaints: Provide the name, title, address, telephone number and FAX number of the person and an alternate person responsible for addressing customer complaints. These persons will ordinarily be the initial point(s) of contact for resolving complaints filed with Applicant, the Distribution Company, the Pennsylvania Public Utility Commission or other agencies.

Barbara St. Amant
Consumer Affairs Representative
Commerce Energy, Inc.
600 Anton Boulevard, Suite 2000
Costa Mesa, CA 92626

Telephone: 714.481.6583
Facsimile: 714.258.0480

Commerce Energy, Inc.'s, Customer Service telephone number is 1.800.ELECTRIC (1.800.353.2874) Ext. 6583

b. Provide a copy of all standard forms or contracts that you use, or propose to use, for service provided to residential customers.

See Attachment F, which contains Commerce Energy, Inc.'s, current enrollment form.

c. If proposing to serve Residential and/or Small Commercial customers, provide a disclosure statement. A sample disclosure statement is provided as Appendix B to this Application.

See Attachment G, which contains Commerce Energy, Inc.'s, Disclosure Statement.

I 7. **FINANCIAL FITNESS:**

A. Applicant shall provide sufficient information to demonstrate financial fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- Actual (or proposed) organizational structure including parent, affiliated or subsidiary companies. **See Attachment H.**
- Published parent company financial and credit information. **See Attachment I. In addition, the annual reports can be found on commerceenergy.com.**
- Applicant's balance sheet and income statement for the most recent fiscal year. Published financial information such as 10K's and 10Q's may be provided, if available. **See Attachment I.**
- Evidence of Applicant's credit rating. Applicant may provide a copy of its Dun and Bradstreet Credit Report and Robert Morris and Associates financial form or other independent financial service reports. **See Attachment J.**
- A description of the types and amounts of insurance carried by Applicant which are specifically intended to provide for or support its financial fitness to perform its obligations as a licensee.
- Audited financial statements. **See Attachment I.**
- Such other information that demonstrates Applicant's financial fitness.

Please refer to Attachment A, which provides additional information regarding Commerce Energy, Inc.'s, financial fitness.

In addition, ACN Energy, Inc., currently maintains a cash deposit with PECO Energy Company. In consideration of the transfer of ACN Energy's NGS license to Commerce Energy, PECO has acknowledged that Commerce Energy meets its NGS creditworthiness requirements. See Attachment K.

B. Applicant must provide the following information:

- Identify Applicant's chief officers including names and their professional resumes.

  See Attachment L for the officers' names and professional profiles.

- Provide the name, title, address, telephone number and FAX number of Applicant's custodian for its accounting records.

  Ken Robinson
  Controller
  Commerce Energy, Inc.
  600 Anton Boulevard, Suite 2000
  Costa Mesa, CA 92626

  Telephone: 714.259.2528
  Facsimile: 714.259.2553

18. **TECHNICAL FITNESS:** To ensure that the present quality and availability of service provided by natural gas utilities does not deteriorate, the Applicant shall provide sufficient information to demonstrate technical fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- The identity of the Applicant's officers directly responsible for operations, including names and their professional resumes. **See Attachment L.**

- A copy of any Federal energy license currently held by the Applicant. **See Attachment M.**

- Proposed staffing and employee training commitments. **As noted previously, Commerce Energy maintains an Electric Generation Supplier license in Pennsylvania, and Commerce Energy continues to meet and maintain the managerial requirements previously acknowledged by the Commission in granting this license. Moreover, as detailed in Attachment A, Commerce Energy's parent company is acquiring ACN Energy, Inc., which currently maintains EGS and NGS licenses in Pennsylvania. As a result, many of the customer service representatives from ACN Energy will continue with Commerce Energy.**

- Business plans.

19. **TRANSFER OF LICENSE:** The Applicant understands that if it plans to transfer its license to another entity, it is required to request authority from the Commission for permission prior to transferring the license. See 66 Pa. C.S. Section 2208(D). Transferee will be required to file the appropriate licensing application.

20. **UNIFORM STANDARDS OF CONDUCT AND DISCLOSURE:** As a condition of receiving a license, Applicant agrees to conform to any Uniform Standards of Conduct and Disclosure as set forth by the Commission.

21. **REPORTING REQUIREMENTS:** Applicant agrees to provide the following information to the Commission or the Department of Revenue, as appropriate:

    a. Reports of Gross Receipts: Applicant shall report its Pennsylvania intrastate gross receipts to the Commission on an annual basis no later than 30 days following the end of the calendar year.

Applicant will be required to meet periodic reporting requirements as may be issued by the Commission to fulfill the Commission's duty under Chapter 22 pertaining to reliability and to inform the Governor and Legislature of the progress of the transition to a fully competitive natural gas market. **See Attachment N.**

22. **FURTHER DEVELOPMENTS:** Applicant is under a continuing obligation to amend its application if substantial changes occur in the information upon which the Commission relied in approving the original filing.

23. **FALSIFICATION:** The Applicant understands that the making of false statement(s) herein may be grounds for denying the Application or, if later discovered, for revoking any authority granted pursuant to the Application. This Application is subject to 18 Pa. C.S. §§4903 and 4904, relating to perjury and falsification in official matters.

24. **FEE:** The Applicant has enclosed the required initial licensing fee of $350.00 payable to the Commonwealth of Pennsylvania.

Applicant: Commerce Energy, Inc.

By: _____
Peter Weigand
President

Date: 04/07/05

AFFIDAVIT

State of California :

: ss.

County of Orange :

Peter Weigand, Affiant, being duly sworn according to law, deposes and says that:
He is the President of Commerce Energy, Inc.; and that he is authorized to and does make this affidavit for said Applicant.

That Commerce Energy, Inc., the Applicant herein, acknowledges that Commerce Energy, Inc., may have obligations pursuant to this Application consistent with the Public Utility Code of the Commonwealth of Pennsylvania, Title 66 of the Pennsylvania Consolidated Statues; or with other applicable statutes or regulations including Emergency Orders which may be issued verbally or in writing during any emergency situations that may unexpectedly develop from time to time in the course of doing business in Pennsylvania.

That Commerce Energy, Inc., the Applicant herein, asserts that it possesses the requisite technical, managerial, and financial fitness to render natural gas supply service within the Commonwealth of Pennsylvania and that the Applicant will abide by all applicable federal and state laws and regulations and by the decisions of the Pennsylvania Public Utility Commission.

That Commerce Energy, Inc., the Applicant herein, certifies to the Commission that it is subject to, will pay, and in the past has paid, the full amount of taxes imposed by Articles II and XI of the Act of March 4, 1971 (P.L. 6, No. 2), known as the Tax Reform Act of 1971 and any tax imposed by Chapter 22 of Title 66. The Applicant acknowledges that failure to pay such taxes or otherwise comply with the taxation requirements of, shall be cause for the Commission to revoke the license of the Applicant. The Applicant acknowledges that it shall report to the Commission its jurisdictional natural gas sales for ultimate consumption, for the previous year or as otherwise required by the Commission. The Applicant also acknowledges that it is subject to 66 Pa. C.S. §506 (relating to the inspection of facilities and records).

Applicant, by filing this application waives confidentiality with respect to its state tax information in the possession of the Department of Revenue, regardless of the source of the information, and shall consent to the Department of Revenue providing that information to the Pennsylvania Public Utility Commission.

That Commerce Energy, Inc., the Applicant herein, acknowledges that it has a statutory obligation to conform with 66 Pa. C.S. §506, and the standards and billing practices of 52 Pa. Code Chapter 56.

That the Applicant agrees to provide all consumer education materials and information in a timely manner as requested by the Commission's Office of Communications or other Commission bureaus. Materials and information requested may be analyzed by the Commission to meet obligations under applicable sections of the law.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief.

Signature of Affiant

Sworn and subscribed before me this 29th day of March, 2005.

Nancy Remy
Signature of official administrating oath

My commission expires 8/17/08.

NANCY REMY
Commission # 1508490
Notary Public - California
Orange County
My Comm. Expires Aug 17, 2008

AFFIDAVIT

State of California :

: ss.

County of Orange :

Peter Weigand, Affiant, being duly sworn according to law, deposes and says that:
He is President of Commerce Energy, Inc.; and that he is authorized to and does make this Affidavit for said Applicant.

That the Applicant herein Commerce Energy, Inc., has the burden of producing information and supporting documentation demonstrating its technical and financial fitness to be licensed as a natural gas supplier pursuant to 66 Pa. C.S.
§ 2208(c)(1).

That the Applicant herein Commerce Energy, Inc., has answered the questions on the application correctly, truthfully, and completely and provided supporting documentation as required.

That the Applicant herein Commerce Energy, Inc., acknowledges that it is under a duty to update information provided in answer to questions on this application and contained in supporting documents.

That the Applicant herein Commerce Energy, Inc., acknowledges that it is under a duty to supplement information provided in answer to questions on this application and contained in supporting documents as requested by the Commission.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief, and that he expects said Applicant to be able to prove the same at hearing.

Signature of Affiant

Sworn and subscribed before me this 29th day of March, 2005.

Nancy Remy
Signature of official administering oath

My commission expires 8/17/08.

NANCY REMY
Commission # 1508490
Notary Public - California
Orange County
My Comm. Expires Aug 17, 2008

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT PETITION OF ACN ENERGY, INC., AND COMMERCE ENERGY, INC., FOR APPROVAL TO TRANSFER NATURAL GAS SUPPLIER LICENSE FROM ACN ENERGY, INC., TO COMMERCE ENERGY, INC.	:	DOCKET NO. P-_____

JOINT PETITION FOR APPROVAL TO TRANSFER NATURAL GAS SUPPLIER LICENSE

TO THE HONORABLE, THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

Pursuant to Section 2208(d) of the Natural Gas Choice and Competition Act, 66 Pa. C.S. § 2208(d), and Section 62.112 of the Public Utility Code, 52 Pa. Code § 62.112, ACN Energy, Inc. ("ACN Energy"), and Commerce Energy, Inc. ("CEI") (collectively, "Petitioners"), hereby submit this Joint Petition ("Petition") to the Pennsylvania Public Utility Commission ("PUC" or "Commission") to request the Commission's approval of the transfer of ACN Energy's Natural Gas Supplier ("NGS") license to CEI. Simultaneous with this filing, CEI is submitting an Application for approval to offer, render, furnish, or supply natural gas services as an NGS to the public in the Commonwealth of Pennsylvania. This Application is attached hereto as Exhibit No. 1.[1]

As discussed more fully herein, ACN Energy is an affiliate of ACN, Inc. ("ACN"), which has several other affiliate companies. Recently, ACN Energy, along with certain other ACN affiliate companies, entered into an agreement to sell the assets of ACN Energy to Commonwealth Energy Corporation ("CEC"), which is an affiliate of Commerce Energy Group,

[1] Because this Application is quite voluminous and is being filed simultaneously with this Petition, Exhibit No. 1 does not contain the exhibits to the Application.

Inc. ("CEG"). Although neither CEG nor any of its affiliates has an NGS license, the PUC approved CEC's application for an Electric Generation Supplier ("EGS") license in 1999. As a result, Commonwealth Energy Company d/b/a electricAmerica, Inc., currently has an EGS license in Pennsylvania. With the acquisition of ACN Energy, CEG has changed the name of CEC to Commerce Energy, Inc. Accordingly, because the PUC previously found that CEC and its parent company had the necessary technical, financial, and managerial fitness required for an EGS license, and because nothing has changed with respect to these entities, the PUC should grant this Joint Petition.

In support of its Joint Petition, ACN Energy and CEI state as follows:

I. BACKGROUND

A. ACN Energy, Inc.

ACN Energy started as a wholly-owned subsidiary of ACN, which is a leading direct selling company offering highly competitive fixed and mobile telephone services, Internet access, and gas and electricity services to consumers and small businesses in North America, Europe, and Australia. ACN Energy has been offering alternative electricity and natural gas services to customers in several deregulated states, including Pennsylvania, California, Georgia, Maryland, New York, and Ohio.

On July 30, 1999, ACN Energy submitted its Application to the Commission to obtain its NGS license. On October 19, 1999, the PUC granted ACN Energy's Application at Docket No. A-125014. ACN Energy currently serves approximately 2,000 natural gas customers in Pennsylvania.[2] Of that number, approximately 1,800 are residential customers and 200 are commercial customers. All of these customers are located in the PECO Energy Company

[2] On November 19, 1998, the PUC granted ACN Energy an EGS license at Docket No. A-110102. ACN Energy currently services approximately 8,000 electric customers in Pennsylvania.

("PECO") service territory. ACN Energy does not provide service to customers outside of this service territory.

B. Commerce Energy, Inc.

CEG, CEI's parent company, is a provider of energy products and services to residential, commercial, and industrial customers; utilities; governments; and, energy asset owners. CEG has various affiliates, including CEC, which holds state and federal licenses for retail and wholesale energy commodities; Skipping Stone, Inc., which is an energy consulting firm; and, UtilitHost, Inc., which is an outsourcing services provider.

On July 1, 1999, CEC filed an Application with the PUC requesting approval to offer electricity generation services in Pennsylvania.[3] On September 15, 1999, the PUC approved CEC's Application and granted Commonwealth Energy Corporation d/b/a Advantage Energy, Inc., an EGS license. On October 12, 1999, CEC filed an application with the Department of State to change its name to Commonwealth Energy Corporation d/b/a electricAmerica, Inc. On October 29, 1999, CEC informed the PUC of this change, and the PUC reissued CEC's license in the name of Commonwealth Energy Corporation d/b/a as electricaAmerica, Inc.[4] To date, electricAmerica currently serves approximately 29,000 electric customers in Pennsylvania, in only the PECO service territory. Of those customers, the majority are commercial customers, with several residential customers and one lighting customer.

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[3] A copy of CEC's EGS Application is attached hereto as Exhibit No. 2.

[4] A copy of this License is attached hereto as Exhibit No. 3. Exhibit No. 4 to this Joint Petition provides a flow chart of the company structure of CEG prior to the acquisition of ACN Energy.

C. Acquisition of ACN Energy, Inc., by Commonwealth Energy Corporation

On February 9, 2005, CEC and ACN Energy entered into an agreement under which CEC acquires the assets of ACN Energy.[5] As a result of this acquisition, CEG is able to achieve several key objectives towards its corporate strategies of diversifying into natural gas and expanding its market footprint, while lowering its regulatory risk profile. Through this acquisition, CEG will have electricity customers in Texas, California, Pennsylvania, New Jersey, and Michigan, with natural gas customers in New York, California, Pennsylvania, Ohio, Georgia, and Maryland. CEG also hopes to cross-sell and expand in each of these markets.

As part of this transaction, CEG is rebranding its retail unit from Commonwealth Energy Company to Commerce Energy, Inc.[6] ACN Energy seeks to transfer its NGS license to CEI, and, in the accompanying Application, CEI seeks an NGS license.[7]

II. TRANSFER OF LICENSE

ACN Energy seeks to transfer its NGS license to CEI. As noted above, CEI is the successor in name to CEC, the entity that received an EGS license from the PUC. Previously, the Commission determined that CEC and its parent company, CEG, possessed the necessary technical, financial, and managerial fitness requirements to obtain an EGS license. CEI and its parent company, CEG, continue to meet and maintain the regulatory requirements and fitness

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[5] A copy of this Agreement is attached hereto as Exhibit No. 5. As indicated in the Agreement, ACN and CEG were parties to the Agreement with respect to certain enumerated provisions.

[6] Exhibit No. 6 to this Joint Petition provides a flow chart of the company structure resulting from the acquisition of ACN Energy and the rebranding of CEC to CEI. Exhibit No. 7 to this Joint Petition contains the Department of State filing made by CEI evidencing the name change from CEC to CEI. CEI is awaiting action by the Department of State with respect to this filing.

[7] CEG recognizes that its EGS license is in CEC's name. In order to address the impact of the name change to CEI with respect to the EGS license, a separate filing will be made in the near future.

previously acknowledged by the Commission in granting an EGS license. Accordingly, the Petitioners' request to transfer this NGS license is just, reasonable, and in the public interest.

III. IMPACT ON ACN ENERGY CUSTOMERS

As part of this transfer of ACN Energy's license, ACN Energy will also assign its current NGS customer base to CEI. CEI will continue to provide service to ACN Energy's natural gas customers pursuant to the terms and conditions of ACN Energy's Disclosure Statement, which is attached to CEI's accompanying Application and as Exhibit No. 8 hereto. In addition, many of the ACN Energy customer service representatives will continue with CEI. As a result, the assignment of customers from ACN Energy to CEI will be virtually seamless and transparent.

CEI will provide notice of this assignment to ACN Energy's customers on approximately April 18, 2005. Prior to sending this notice to customers, it was reviewed by the Commission's Bureau of Consumer Services ("BCS") and is attached hereto as Exhibit No. 9. See 52 Pa. Code § 62.75(2).

As indicated in CEI's accompanying Application, CEI intends to initially provide NGS service in only the PECO Energy Company ("PECO") service territory. In order to provide service in this territory, CEI has already contacted PECO to address any credit issues. To that end, PECO has acknowledged that CEI meets its NGS creditworthiness requirements. See Exhibit No. 10.

IV. CONCLUSION

Wherefore, ACN Energy, Inc., and Commerce Energy, Inc., respectfully request that the Pennsylvania Public Utility Commission: (1) grant this Petition; (2) authorize the transfer of ACN Energy's NGS license at A-110102 to CEI; (3) approve CEI's accompanying Application for an NGS license; and (4) provide any other approvals that the Commission deems necessary.

Respectfully submitted,

By _____

Derrick Price Williamson
Charis Mincavage
100 Pine Street
Harrisburg, PA 17108
Tele.: 717.232.8000
Fax: 717.237.5300

Counsel to ACN Energy, Inc. and
Commerce Energy, Inc.

Date: April 8, 2005

VERIFICATION

STATE OF Michigan :
: ss.
COUNTY OF Oakland :

I, James Mulcahy, hereby state that the facts in the foregoing Joint Petition are true and correct to the best of my knowledge, information, and belief, and that I expect to be able to prove the same at any hearing held in this matter. I understand the statements herein are made subject to the penalties of 18 Pa. C.S. §4904, relating to falsification to authorities.

Date: 4/5/05

James Mulcahy
Secretary
ACN Energy, Inc.

VERIFICATION

STATE OF CALIFORNIA :
: ss.
COUNTY OF ORANGE :

I, Peter Weigand, hereby state that the facts in the foregoing Joint Petition are true and correct to the best of my knowledge, information, and belief, and that I expect to be able to prove the same at any hearing held in this matter. I understand the statements herein are made subject to the penalties of 18 Pa. C.S. §4904, relating to falsification to authorities.

Date: March 28, 2005

Peter Weigand
President
Commerce Energy, Inc.

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Application for Amended Certificate of Authority
Foreign Corporation
(15 Pa.C.S.)

Entity Number: 2890912

XX Foreign Business Corporation (§ 4126)
___ Foreign Nonprofit Corporation (§ 6126)

Name: Betsy A. Ruth, McNees Wallace & Nurick LLC
Address: 100 Pine Street, P.O. Box 1166
City: Harrisburg | State: PA | Zip Code: 17108-1166

Document will be returned to the name and address you enter to the left.
⇐

Fee: $250

Filed in the Department of State on _____

Secretary of the Commonwealth

In compliance with the requirements of the applicable provisions of 15 Pa.C.S. (relating to corporations and unincorporated associations), the undersigned foreign corporation, desiring to receive an amended certificate of authority, hereby states that:

1. The name under which the corporation currently holds a certificate of authority to do business within the Commonwealth of Pennsylvania is:
Commonwealth Energy Corporation

2. The name of the jurisdiction under the laws of which the corporation is incorporated is: California

3. The address of its principal office under the laws of the jurisdiction in which it is incorporated is:
600 Anton Blvd., Suite 2000 Costa Mesa CA 92626
Number and Street | City | State | Zip

4. The (a) address of this corporation's registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:

(a) Number and Street | City | State | Zip | County

(b) Name of Commercial Registered Office Provider: c/o: CT Corporation System | County: Philadelphia

Check if applicable:

___ The foregoing reflects a change in Pennsylvania registered office.

DSCB:15-4126/6126-2

5 The corporation desires that its certificate of authority be amended to change the name under which it is authorized to transact business in the Commonwealth of Pennsylvania to:

Commerce Energy, Inc.

6 *If the name set forth in Paragraph 5 is not available for use in this Commonwealth, complete the following:*

The fictitious name which the corporation adopts for use in transacting business in this Commonwealth is:

The corporation shall do business in Pennsylvania only under such fictitious name pursuant to the attached resolution of the board of directors under the applicable provisions of 15 Pa.C.S. (relating to corporations and unincorporated associations) and the attached form DSCB:54-311 (Application for Registration of Fictitious Name).

7. *Check one of the following:*

X The change of name reflects a change effected in the jurisdiction of incorporation

___ Documents complying with the applicable provisions of 15 Pa.C.S. § 4123(b) or 6123(b) (relating to exception; name) accompany this application.

IN TESTIMONY WHEREOF, the undersigned corporation has caused this Application for an Amended Certificate of Authority to be signed by a duly authorized officer thereof this

31st day of March

2005

Commonwealth Energy Corporation
Name of Corporation

(X)
Signature

Peter Weigand, President
Title

COMMONWEALTH ENERGY CORPORATION

ARTICLES OF INCORPORATION
AND
AMENDMENTS

ENDORSED
FILED
in the office of the Secretary of State
of the State of California

AUG 15 1997

BILL JONES, Secretary of State

ARTICLES OF INCORPORATION
OF
COMMONWEALTH ENERGY CORPORATION

ARTICLE ONE

The name of this corporation is:

COMMONWEALTH ENERGY CORPORATION

ARTICLE TWO

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California, other than the banking business, trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code

ARTICLE THREE

The name and address in the State of California of this corporation's initial agent for service of process is:

GARY C. WYKIDAL
245 Fischer Ave., Ste. A-1
Costa Mesa, CA 92626

ARTICLE FOUR

This corporation is authorized to issue two classes of shares which shall be designated "common" shares and "preferred" shares. The total amount of common shares that may be issued is fifty million (50,000,000). The total number of preferred shares that this corporation shall have the authority to issue is one mulion (1,000,000). Said preferred shares shall have the rights, privileges and preferences as determined by the Board of Directors from time to time.

ARTICLE FIVE

The liability of the Directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

ARTICLE SIX

This corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) for breach of duty to the corporation and its shareholders through bylaw provisions or through agreements with the agents, or both, in excess of the indemnification expressly permitted by Section 317 of the California Corporations Code, subject to the limits of such excess indemnification set forth in Section 204 of the Corporation Code.

DATED: August 14, 1997

Sheryl Douglas

Sheryl Douglas, Incorporator

D:\COMMON\ARTICLES

CERTIFICATE OF DETERMINATION OF COMMONWEALTH ENERGY CORPORATION a California Corporation

The undersigned, Fred Bloom, President, and David Mensch, Secretary, certify that:

1. Fred Bloom is the President, and David Mensch is the Secretary, of Commonwealth Energy Corporation, a California corporation (the "Company").

2. The number of shares of Series A Convertible Preferred Stock shall be 1,000,000, none of which have been issued.

3. By action of the Board of Directors of the Company on September 15, 1997 at the Company's office located at 15941 Redhill Ave., Ste. 200, Tustin, California 92780, County of Orange, and State of California, the following resolution was adopted by unanimous written consent of the directors:

WHEREAS, Article Four of the Articles of Incorporation of the Company authorizes a class of shares designated as Preferred shares consisting of 1,000,000 shares, the rights, preferences, privileges to be determined by the Board of Directors; and

WHEREAS, none of the shares have previously been issued and it is now the desire of the Board of Directors, pursuant to the authority vested in it by the Articles of Incorporation as hereinabove set forth, to fix and determine the rights, preferences, privileges, and restrictions of the Preferred shares.

NOW THEREFORE, BE IT RESOLVED that the Board of Directors does hereby provide for the issuance of Preferred Shares of the Company and does hereby fix and determine the rights, preferences, privileges, and restrictions of, and other matters relating to, that series, as follows:

I. 1,000,000 shares shall be designated as "Series A Convertible Preferred Stock", none of which have been previously issued, with the powers, preferences, rights, restrictions, and other matters as follows:

(1) Dividends.

(a) Subject to the provisions hereof, the annual rate of dividends payable on each Share shall be 10% of the original issue price or the maximum rate as allowed by law, whichever is less. Dividends shall be calculated from the date issue and payable, in each case quarterly on the first day of January, April, June and September of each year ("Dividend Payment Date"), commencing January 1, 1998, unless any such day is not a business day (a day other than Saturday, Sunday or legal holiday) in which event on the next business day. The amount of dividends payable on these Shares for each full semi-annual dividend period shall be computed by dividing by two the annual rate per share set forth in this Section (a). The amount of dividends payable on these Shares for any period less than each quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months. Dividends shall be

paid, when, as and if declared by the Board of Directors, to record holders of these Shares as of the close of business on the preceding December 1 with respect to a dividend payable on January 1; March 1 with respect to a dividend payable on April 1; May 1 with respect to a dividend payable on June 1 and August 1 with respect to a dividend payable on September 1, except that if such date for determination of record holders is not a Business Day, such date shall be the next Business Day (the "Dividend Record Date").

(b) The holders of these Shares shall be entitled to receive, when, as and if declared by the Board of Directors and out of the assets of the Corporation which are by law available for the payment of dividends, cumulative dividends payable in cash.

(c) (i) Dividends on these Shares shall be cumulative. Such dividends shall accrue from the date of issuance and shall be deemed to accrue from day to day whether or not earned or declared. Such dividends shall be payable before any dividends shall be declared, set apart, or paid for the Common Stock, and shall be cumulative so that if for any dividend period such dividends on the outstanding Preferred Shares at the rate herein specified are not paid or declared and set apart therefor, the deficiency shall be fully paid or declared and set apart for payment, without interest, before any distribution, by dividend or otherwise, shall be paid on, declared, or set apart for the Common Stock.

(ii) Each period beginning on the day next following a Dividend Payment Date and ending on the next succeeding Dividend Payment Date shall be a "Dividend Period". Dividends shall accrue but not compound on a daily basis at the semi-annual dividend rate in effect at such time.

(iii) If full dividends on all outstanding Shares at that rate per share set out in (a) shall not have been declared and paid or set aside for payment for the immediately preceding Dividend Period, the Corporation shall not, until full dividends have been declared and paid or set aside for payment on all outstanding Shares for a subsequent Dividend Period, (A) declare or pay or set aside for payment any dividends or make any other distribution or payments on the Common Stock or (B) make any payment on account of the purchase, redemption or other retirement of, or pay or make available any monies for a sinking fund for the redemption of, any shares of Common Stock.

(2) Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of Common Stock or other junior equity security by reason of their ownership thereof, an amount per share equal to the sum of (i) $1.00 for each outstanding share of Series A Preferred Stock (the "Original Issue Price"), and (ii) an amount equal to all declared but unpaid dividends on each such share. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the

holders of the Series A Preferred Stock in proportion to the product of the liquidation preference of each such share and the number of such shares owned by each such holder.

(b) After the distribution described in subsection (a) above has been paid, the remaining assets of the Company available for distribution to stockholders shall be distributed among the holders of Common Stock pro rata based on the number of shares of Common Stock held by each.

(c) For purposes of this Section 2, (i) any acquisition of the Company by means of merger or other form of corporate reorganization in which the shareholders of the Company do not own a majority of the outstanding shares of the surviving Company or (ii) a sale of all or substantially all of the assets of the Company shall be treated as a liquidation, dissolution or winding up of the Company and shall entitle the holders of Series A Preferred Stock and Common Stock to receive at the closing cash, securities or other property as specified in Sections 2(a) and 2(b) above

(d) Any securities to be delivered to the holders of Series A Preferred Stock and Common Stock pursuant to Section 2(c) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability:

(A) If traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the thirty (30) day period ending three (3) days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid and asked prices over the thirty (30) day period ending three (3) days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Company and the holders of not less than a majority of the then outstanding shares of Series A Preferred Stock.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in clauses (i)(A), (B) or (C) to reflect the approximate fair market value thereof, as mutually determined by the Company and the holders of a majority of the then outstanding shares of Series A Preferred Stock.

(e) The Company shall give each holder of record of Series A Preferred Stock written notice of such impending transaction not later than twenty (20) days prior to the stockholders' meeting called to approve such transaction, or twenty (20) days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 2, and the Company shall thereafter give such holders prompt notice of any material changes. The transaction shall

in no event take place earlier than twenty (20) days after the Company has given the first notice provided for herein or earlier than ten days after the Company has given notice of any material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of a majority of the shares of Series A Preferred Stock then outstanding.

(3) Conversion. The holders of Series A Preferred Stock shall have conversion rights as follows (the "Conversion Rights").

(a) Right To Convert. Subject to subsection (d), each share of outstanding Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Company or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the Original Issue Price by the Conversion Price in effect at the time for the Series A Preferred Stock (the "Conversion Price"). The initial Conversion Price per share for shares of Series A Preferred Stock shall be the Original Issue Price, subject to adjustment as set forth in subsection (d).

(b) Automatic Conversion. Each share of Series A Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Price then in effect for the Series A Preferred Stock immediately upon (i) the closing of the sale of the Company's Common Stock in a bona fide, firmly underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act") pursuant to a registration statement on Form S-1 or any successor or similar form or (ii) the approval of holders of 66-2/3% of the outstanding shares of Series A Preferred Stock.

(c) Mechanics of Conversion.

(i) Before any holder of Series A Preferred Stock shall be entitled voluntarily to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or of any transfer agent for such stock, and shall give written notice to the Company at such office that he elects to convert the same and shall state therein the number of shares to be converted and the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Company shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled. Such conversion shall be deemed to have been made immediately prior to the close of business on the date or surrender of the shares of Series A Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(ii) If the conversion is in connection with an underwritten offering of securities pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of Series A Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event

the person(s) entitled to receive the Common Stock upon conversion of the Series A Preferred Stock shall not be deemed to have converted such Series A Preferred Stock until immediately prior to the closing of such sale of securities.

(d) Adjustments to Conversion Prices for Stock Dividends and for Combinations or Subdivisions of Common Stock. In the event that the Company at any time or from time to time after the first date of any issuance of Series A Preferred Stock (the "Original Issue Date") shall declare or pay, without consideration, any dividend on the Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Conversion Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that the Company shall declare or pay, without consideration, any dividend on the Common Stock payable in any right to acquire Common Stock for no consideration, then the Company shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

(e) Adjustments for Reclassification and Reorganization. If the Common Stock issuable upon conversion of the Series A Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section 3(d) above or a merger or other reorganization referred to in Section 2(d) above), the Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that the Series A Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Series A Preferred Stock immediately before that change.

(f) No Impairment. The Company will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 3 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock against impairment.

(g) Certificates as to Adjustments. Upon the occurrence of each adjustment or readjustment of any Conversion Price pursuant to this Section 3, the Company, at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock a certificate executed

by the Company's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which the Company shall, upon the written request at any time of any holder of Series A Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the Series A Preferred Stock.

(h) Notices of Record Date. In the event that the Company shall propose at any time (i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus; (ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Company shall send to the holders of Series A Preferred Stock:

(A) At least twenty (20) days prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(B) In the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

(i) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate.

(j) Fractional Shares. No fractional share shall be issued upon the conversion of any share or shares of Series A Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series A Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common

Stock, the Company shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors).

(k) Notices. Any notice required by the provisions of this Section 3 to be given to the holders of shares of Series A Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Company.

(4) Voting Rights. The holder of each share of Series A Preferred have the right to one vote for each share of Common Stock into which such share of Series A Preferred Stock could be converted on the record date for the vote or written consent of stockholders. In all cases any fractional share, determined on an aggregate conversion basis, shall be rounded to the nearest whole share. With respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof, to notice of any stockholders meeting in accordance with the bylaws of the Company, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote.

(5) Status of Converted Stock. In the event any shares of Series A Preferred Stock shall be converted pursuant to Section 3 hereof, the shares so converted shall be canceled and shall not be issuable by the Company, and all such shares shall be canceled, retired and eliminated from the shares which the Company is authorized to issue.

(6) Restrictions and Limitations. So long as any shares of Series A Preferred Stock remain outstanding, the Company shall not, without the vote or written consent by the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, amend these Articles of Incorporation if such amendment would adversely affect any of the rights, preferences or privileges provided for herein for the benefit of the Series A Preferred Stock.

RESOLVED FURTHER, that the President and Secretary of the Company are hereby authorized and directed to prepare, execute, verify, and file in the office of the California Secretary of State, a Certificate of Determination in accordance with this resolution as required by law.

WE FURTHER DECLARE, under penalty of perjury under the laws of the State of California, that the matters set forth in this Certificate of Determination are true and correct of our own knowledge.

Executed this 22nd day of September, 1997 in Costa Mesa, California.

Fred Bloom, President

David Wensch, Secretary

ENDORSED - FILED
In the Office of the Secretary of State
of the State of California

FEB 19 1999

BILL JONES, Secretary of State

CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION OF COMMONWEALTH ENERGY CORPORATION

The undersigned certify that:

1. They are the president and secretary, respectively of COMMONWEALTH ENERGY CORPORATION, a California corporation.

2. Article Four of the Articles of Incorporation of this corporation is amended to read as follows:

   This corporation is authorized to issue two classes of shares which shall be designated "common" shares and "preferred" shares. The total amount of common shares that may be issued is fifty million (50,000,000). The total number of preferred shares that this corporation shall have the authority to issue is ten million (10,000,000). Said preferred shares shall have the rights, privileges and preferences as determined by the board of directors from time to time.

3. The foregoing amendment of Articles of Incorporation has been duly approved by the board of directors.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 and Section 903, California Corporations Code. The total number of outstanding common shares of the corporation is 10,939,931. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than 50%. The total number of outstanding preferred shares of the corporation is 919,000. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than 50%.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: December 31, 1998

David Mensch, *President*

Donnie E. Price, *Secretary*

WAIVER OF NOTICE OF FIRST MEETING

OF THE SHAREHOLDERS

OF

COMMONWEALTH ENERGY CORPORATION

We, the undersigned, the shareholders of Commonwealth Energy Corporation do hereby waive notice of the time, place and purpose of the first meeting of the shareholders of said corporation, and consent that the meeting be held in the offices of Gary C. Wykidal, 245 Fischer Ave., Suite A-1, Costa Mesa, California on August 15, 1997 at 10:00 a.m., and we do further consent to the transaction of any and all business which may properly come before this meeting.

DATED: this 15th day of August, 1997

Frederick M. Bloom, Shareholder

COMMONWEALTH ENERGY CORPORATION

BYLAWS

BY-LAWS

of

COMMONWEALTH ENERGY CORPORATION

a California corporation

ARTICLE I

DIRECTORS: MANAGEMENT

Section 1. a. Powers.

Subject to the provisions of the General Corporation Law of California, effective January 1, 1977 (to which the various Section numbers quoted herein relate) and subject to any limitation in the Articles of Incorporation and the By-Laws relating to action required to be approved by the Shareholders (Sec. 153) or by the outstanding shares (Sec. 152), the business and affairs of this corporation shall be managed by and all corporate powers shall be exercised by or under direction of the Board of Directors.

b. Standard of Care.

Each Director shall exercise such powers and otherwise perform such duties in good faith, in the manner such Director believes to be in the best interests of the corporation, and with such care, including reasonable inquiry, using ordinary prudence, as a person in a like position would use under similar circumstances. (Sec. 309)

c. Exception for Close Corporation.

Notwithstanding the provisions of Section 1, in the event that this corporation shall elect to become a close corporation as defined in Sec. 158, its Shareholders may enter into a Shareholders' Agreement as provided in Sec. 300 (b). Said agreement may provide for the exercise of corporate powers an the management of the business and affairs of this corporation by the Shareholders, provided however such agreement shall, to the extent and so long as the discretion or the powers of the Board in its management of corporate affairs is controlled by such agreement, impose upon each Shareholder who is a party thereof, liability for managerial acts performed or omitted by such person pursuant thereto otherwise imposed upon Directors as provided in Sec. 300 (d).

Section 2. Number and Qualification.

The authorized number of Directors of the corporation shall be no less than the minimum number of shareholders and no more than seven (7).

This number may be changed by amendment to the Articles of Incorporation or by an amendment to this Section 2, ARTICLE I, of these By-Laws, adopted by the vote or written assent of the Shareholders entitled to exercise majority voting power as provided in Sec. 212.

Section 3. Election and Tenure of Office.

The Directors shall be elected by ballot at the annual meeting of the Shareholders, to serve for one year or until their successors are elected and have qualified. Their term of office shall begin immediately after election.

Section 4. Vacancies.

Vacancies in the Board of Directors may be filled by a majority of the remaining Directors, though less than a quorum, or by a sole remaining Director, and each Director so elected shall hold office until his successor is elected at an annual meeting of Shareholders or at a special meeting called for that purpose.

The Shareholders may at any time elect a Director to fill any vacancy not filled by the Directors, and may elect the additional Directors at the meeting at which an amendment of the By-Laws is voted authorizing an increase in the number of Directors.

A vacancy or vacancies shall be deemed to exist in case of the death, resignation or removal of any Director, or if the Shareholders shall increase the authorized number of Directors but shall fail at the meeting at which such increase is authorized, or at an adjournment thereof, to elect the additional Director so provided for, or in case the Shareholders fail at any time to elect the full number of authorized Directors.

If the Board of Directors accepts the resignation of a Director tendered to take effect at a future time, the Board, or the Shareholders, shall have power to elect a successor to take office when the resignation shall become effective.

No reduction of the number of Directors shall have the effect of removing any Director prior to the expiration of his term of office.

Section 5. Removal of Directors.

The entire Board of Directors or any individual Director may be removed from office as provided by secs. 302, 303 and 304 of the Corporations Code of the State of California. In such case, the remaining Board members may elect a successor Director to fill such vacancy for the remaining unexpired term of the Director so removed.

Section 6. Notice, Place and Manner of Meetings.

Meetings of the Board of Directors may be called by the Chairman of the Board, or the President, or any Vice President, or the Secretary, or any two (2) Directors and shall be held at the principal executive office of the corporation in the State of California, unless some other place is designated in the notice of the meeting. No notice need be given of organization meetings or regular meetings held at the corporate offices at the time and date set forth herein. Notice shall be given of other meetings as herein provided. Members of the Board may participate in a meeting through use of a conference telephone or similar communications equipment so long as all members participating in such a meeting can hear one another. Accurate minutes of any meeting of the Board, or any committee thereof, shall be maintained as required by Sec. 1500 of the Code by the Secretary or other Officer designated for that purpose.

Section 7. Organization Meetings - Regular Meetings.

The organization meetings of the newly elected Board of Directors shall be held immediately following the adjournment of the annual meetings of the Shareholders.

Other Regular Meetings.

Regular meetings of the Board of Directors shall be held at the corporate offices, or such other place as may be designated by the Board of Directors, as follows:

Time of Regular Meeting: 11:00 a.m.

Date of Regular Meeting: First Monday in August

If said day shall fall upon a holiday, such meetings shall be held on the next succeeding business day thereafter.

Section 8. Special Meetings - Notices.

Special meetings of the Board may be called at any time by the President or, if he is absent or unable or refuses to act, by any Vice President or the Secretary or by any two Directors, or by one Director if only one is provided.

At least forty-eight (48) hours notice of the time and place of special meetings shall be delivered personally to the Directors or personally communicated to them by a corporate Officer by telephone or telegraph. If the notice is sent to a Director by letter, it shall be addressed to him at his address as it is shown upon the records of the corporation, (or if it is not so shown on such records or is not readily ascertainable, at the place in which the meetings of the Directors are regularly held). In case such notice is mailed, it shall be deposited in the United States mail, postage prepaid, in the place in which the principal executive office of the corporation is located at least four (4) days prior to the time of the holding of the meeting. Such mailing, telegraphing, telephoning or delivery as above provided shall be due, legal and personal notice to such Director.

Section 9. Waivers.

When (i) all of the Directors are present at any organizational, regular or special meeting, however called or noticed, and sign a written consent thereto on the records of such meeting, or, (ii) if a majority of the Directors are present and if those not present sign a waiver of notice of such meeting or a consent to holding the meeting or an approval of the minutes thereof, whether prior to or after the holding of such meeting, which said waiver, consent or approval shall be filed with the corporate records or made a part of the minutes of the meeting or (iii) if a Director attends a meeting without notice but without protesting, prior thereto or at its commencement, the lack of notice to him, then the transactions thereof are as valid as if had at a meeting regularly called and noticed.

Section 10. Sole Director Provided by Articles of Incorporation.

In the event only one Director is required by the By-Laws or Articles of Incorporation, then any reference herein to notices, waivers, consents, meetings or other actions by a majority or quorum of the Directors shall be deemed to refer to such notice, waiver, etc., by such sole Director, who shall have all the rights and duties and shall be entitled to exercise all the powers and shall assume all the responsibilities otherwise herein described as given to a Board of Directors.

Section 11. Directors Acting by Unanimous Written Consent.

Any action required or permitted to be taken by the board of Directors may be taken without a meeting and with the same force and effect as if taken by a unanimous vote of Directors, if authorized by a writing signed individually or collectively by all members of the Board. Such consent shall be filed with the regular minutes of the Board.

Section 12. Quorum.

A majority of the number of Directors as fixed by the Articles of Incorporation or By-Laws shall be necessary to constitute a quorum for the transaction of business, and the

action of a majority of the Directors present at any meeting at which there is a quorum, when duly assembled, is valid as a corporate act; provided that a minority of the Directors, in the absence of a quorum, may adjourn from time to time, but may not transact any business. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, if any action taken is approved by a majority of the required quorum for such meeting.

Section 13. Notice of Adjournment.

Notice of the time and place of holding an adjourned meeting need not be given to absent Directors if the time and place be fixed at the meeting adjourned and held within twenty-four (24) hours, but if adjourned more than twenty-four (24) hours, notice shall be given to all Directors not present at the time of the adjournment.

Section 14. Compensation of Directors.

Directors, as such, shall not receive any stated salary for their services, but by resolution of the Board a fixed sum and expense of attendance, if any, may be allowed for attendance at each regular and special meeting of the Board; provided that nothing herein contained shall be construed to preclude any Director from serving the company in any other capacity and receiving compensation therefor.

Section 15. Committees.

Committees of the Board may be appointed by resolution passed by a majority of the whole Board. Committees shall be composed of two or more members of the Board, and shall have such powers of the Board as may be expressly delegated to it by resolution of the Board of Directors, except those powers expressly made non-delegable by Sec. 311.

Section 16. Advisory Directors.

The Board of Directors from time to time may elect one or more persons to be Advisory Directors who shall not by such appointment be members of the Board of Directors. Advisory Directors shall be available from time to time to perform special assignments specified by the President, to attend meetings of the Board of Directors upon invitation and to furnish consultation to the Board. The period during which the title shall be held may be prescribed by the Board of Directors. If no period is prescribed, the title shall be held at the pleasure of the Board.

Section 17. Resignations.

Any Director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors of the corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is

effective at a future time, a successor may be elected to take office when the resignation becomes effective.

ARTICLE II

OFFICERS

Section 1. Officers.

The Officers of the corporation shall be a Chairman of the Board or a President or both, a Secretary and a Chief Financial Officer. The corporation may also have, at the discretion of the Board of Directors, one or more Vice Presidents, one or more Assistant Secretaries and such other Officers as may be appointed in accordance with the provisions of Section 3 of this Article. One person may hold two or more offices.

Section 2. Election.

The Officers of the corporation, except such Officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article shall be chosen annually by the Board of Directors, and each shall hold his office until he shall resign or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

Section 3. Subordinate Officers, Etc.

The Board of Directors may appoint such other Officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the By-Laws or as the Board of Directors may from time to time determine.

Section 4. Removal and Resignation.

Any Officer may be removed, either with or without cause, by a majority of the Directors at the time in office, at any regular or special meeting of the Board, or, except in case of an Officer chosen by the Board of Directors, by any Officer upon whom such power of removal may be conferred by the Board of Directors.

Any Officer may resign at any time by giving written notice to the Board of Directors, or to the President, or to the Secretary of the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

State of California
Secretary of State

I, Cathy Mitchell, Acting Secretary of State of the State of California, hereby certify:

That the attached transcript of 1 page(s) has been compared with the record on file in this office, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

MAR 2 3 2005

CATHY MITCHELL
Acting Secretary of State

A0625416

ENDORSED - FILED
In the office of the Secretary of State
of the State of California

MAR 22 2005

CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION OF COMMONWEALTH ENERGY CORPORATION

Peter Weigand and Richard L. Boughrum hereby certify that:

1. They are the President and Secretary, respectively, of Commonwealth Energy Corporation, a California corporation (the "Corporation").

2. Article I of the Articles of Incorporation of this Corporation is hereby amended to read in its entirety as follows:

"The name of this corporation is Commerce Energy, Inc."

3. The foregoing amendment of the Articles of Incorporation has been duly approved by the Board of Directors of this Corporation.

4. The foregoing amendment of the Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 903 of the Corporations Code. The total number of outstanding shares of Common Stock of the Corporation is 30,553,540. The Corporation has no outstanding shares of preferred stock. The number of shares voting in favor of the foregoing amendment equaled or exceeded the vote required. The percentage vote required was more than fifty percent (50%) of the Common Stock.

We further declare under penalty of perjury under the laws of the State of California that the matters set out in this Certificate of Amendment are true and correct of our own knowledge.

Dated: March 21, 2005

Peter Weigand, President

Richard L. Boughrum, Secretary

OFFICE OF THE SECRETARY OF STATE

OC\567533.2

APPENDIX A

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

TAX CERTIFICATION STATEMENT

A completed Tax Certification Statement must accompany all applications for new licenses, renewals or transfers. Failure to provide the requested information and/or any outstanding state income, corporation, and sales (including failure to file or register) will cause your application to be rejected. If additional space is needed, please use white 81/2" x 11" paper. Type or print all information requested.

1. CORPORATE OR APPLICANT NAME
Commerce Energy, Inc.

2. BUSINESS PHONE NO. (714) 259-2500
CONTACT PERSON(S) FOR TAX ACCOUNTS: Kenneth Robinson

3. TRADE/FICTITIOUS NAME (IF ANY)
N/A

4. LICENSED ADDRESS (STREET, RURAL ROUTE, P.O. BOX NO.) (POST OFFICE) STATE) (ZIP)
600 Anton Boulevard, Costa Mesa CA 92626

5. TYPE OF ENTITY ☐ SOLE PROPRIETOR ☐ PARTNERSHIP ☒ CORPORATION

8. LIST OWNER(S), GENERAL PARTNERS, OR CORPORATE OFFICER(S)

NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
Peter Weigand	___ - ___ - ____
Richard Boughrum	___ - ___ - ____
	___ - ___ - ____
	___ - ___ - ____
	___ - ___ - ____

9. LIST THE FOLLOWING STATE TAX IDENTIFICATION NUMBERS. (ALL ITEMS: A, B, AND C MUST BE COMPLETED).

A. SALES TAX LICENSE (8 DIGITS) APPLICATION PENDING ☐ N/A ☐
___ - ____ - ___ ☒

B. EMPLOYER ID (EIN) (9 DIGITS): APPLICATION PENDING ☐ N/A ☐
33-0769555 ☐

C. CORPORATE BOX NUMBER (7 DIGITS) APPLICATION PENDING ☐ N/A ☐
_____ _____

10. Do you have PA employes either resident or non-resident? ☐ YES ☒ NO

11. Do you own any assets or have an office in PA? ☐ YES ☒ NO

NAME AND PHONE NUMBER OF PERSON(S) RESPONSIBLE FOR FILING TAX RETURNS

PA SALES AND USE TAX	EMPLOYER TAXES	CORPORATE TAXES
Kenneth Robinson	Kenneth Robinson	Kenneth Robinson
PHONE (714) 259-2500	PHONE (714) 259-2500	PHONE (714) 259-2500

Telephone inquiries about this form may be directed to the Pennsylvania Department of Revenue at the following numbers:
(717) 772-2673, TDD# (717) 772-2252 (Hearing Impaired Only)

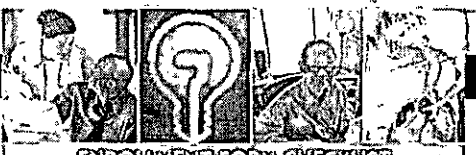
Service provided by
Commerce Energy
In Alliance with **ACN**

Energy Enrollment Center
P.O. Box 9000, Farmington Hills, MI 48333-9000
Fax Orders to: 248-489-8589

CUSTOMER ENROLLMENT FORM

PENNSYLVANIA ☐ GAS ☐ ELECTRIC

(Check box to select the service)



Plug-In and Reap the Rewards of a Competitive Marketplace

Commerce Energy is dedicated to providing highly reliable gas and electric service at competitive rates with personalized service. As the largest non utility affiliated retail marketer of natural gas and electricity in America our focus is on being the best retail energy company in the business. We are not a trading company, and we are not a utility. Retail energy is our sole focus. Commerce Energy is financially strong enough to provide security to our customers, but not so large that we have forgotten that our customers are the reason we are in business.

Switching to Commerce Energy is easy! Regardless of whether you use gas or electric service, Commerce will use your existing lines. Our foundation is built upon quality, reliability and complete customer satisfaction. utilize your power of choice and let us start working for you today.

ENROLLMENT FORM CHECKLIST

Have you provided all the necessary information to complete your order?

- ☐ Current Utility Bill Attached
- ☐ Current Utility Account Number
- ☐ First and Last Name
- ☐ Service Address
- ☐ Social Security Number and Date of Birth
- ☐ Customer Signature
- ☐ Today's Date
- ☐ Representative Signature
- ☐ Representative Team ID Number
- ☐ Federal Tax Payer ID (for Commercial Customers)

IMPORTANT NOTE!

This enrollment form WILL BE INCOMPLETE without an ENTIRE copy of the customer's current utility bill.

CUSTOMER ID – FOR COMMERCE ENERGY OFFICE USE ONLY

1. CURRENT UTILITY INFORMATION

Gas Utility Name

Electric Utility Name

Current Gas Account #

Current Electric Account #

☐ I have attached my current Utility Bill with the Enrollment Form

2. CUSTOMER INFORMATION

First Name M.I. Last Name

Service Address Unit Number

City State P A Zip Code

Daytime Telephone Number – – Evening Telephone Number – –

Social Security Number – – **AND** **Customer Date of Birth** Month – Day – Year

Email Address

(Name of Current Utility Service Provider, Social Security Number AND Date of Birth are REQUIRED to process ALL orders)

3. BILLING INFORMATION (IF DIFFERENT)

Billing Address

City State Zip Code

4. SPECIAL REQUIREMENTS

Do you have life support equipment in operation at this service address? ☐ Yes ☐ No

5. YOUR TAX STATUS

☐ Non-Exempt ☐ Exempt If exempt, attach a copy of the tax exempt certificate

6. REQUIRED FOR COMMERCIAL CUSTOMERS ONLY

Federal Tax Payer ID –

7. CUSTOMER AUTHORIZATION

I authorize Commerce Energy to act as my agent to switch me from my current provider and instruct my current provider to perform any necessary tasks in order to make this change. I authorize Commerce Energy to perform a credit check and understand my service may be subject to Commerce Energy's credit approval. Commerce Energy agrees to keep my credit information strictly confidential and will not share it with anyone. I understand Commerce Energy will provide me with a copy of the Terms and Conditions for service upon their acceptance of my request for service.

Customer Signature _____ Today's Date Month – Day – Year

8. INTERNAL USE ONLY

Representative Name | *Representative* Signature | *Representative* Team ID

Disclosure Statement for Natural Gas Suppliers

This is an agreement for natural gas services, between Commerce Energy, Inc. ("Commerce Energy") and

_____

(Customer's name and full address).

Background

We at Commerce Energy are licensed by the Pennsylvania Public Utility Commission to offer and supply natural gas services in Pennsylvania. Our PUC license number is A-____.

- We set the commodity prices and charges that you pay. The Public Utility Commission regulates distribution prices and services.
- You will receive a single bill from your natural gas distribution company ("NGDC") for our charges as well as the NGDC's charges. Commerce Energy reserves the right to assume the billing function for our services.
- Right of Rescission - You may cancel this agreement at any time before midnight of the third business day after receiving this disclosure.

Definitions

- Commodity Charges - The charges for the natural gas product, which is sold either in cubic feet or dekatherms.
- Customer Charge - A fixed monthly charge for costs incurred by Commerce Energy in servicing your account.

TERMS OF SERVICE

1. Basic Service Prices

a. Commodity Charge

You will pay a variable rate ("price"). This price includes estimated total state tax. This price excludes state sales and local taxes. Your price may vary monthly under this month-to-month agreement depending on wholesale costs and market conditions. Public market indexes that are indicative of wholesale costs include *Inside FERC's Monthly Gas Market Report* spot gas delivery charges for Texas Eastern Zone M-3 and Transco Zone 6, *Platt's Gas Daily* Texas Eastern M-3 and Transco Zone 6 daily price survey, and the daily natural gas cash and futures prices reported in the *Wall Street Journal.*

Your starting price will be $___ per ccf in the month you begin receiving service from Commerce Energy, and this rate will be reflected on your first bill. This starting price is valid for service beginning on or before _____.

Thereafter, your price will vary depending on wholesale market conditions, as described above. Commerce Energy will post its monthly price on its website, www.commercenergy.com, at least three days prior to the first day of each month. This monthly price will be the price that Commerce Energy will charge you for natural gas delivered to you for the billing period that begins on or after the first day of the month. You may call the Commerce Energy Rate Hotline at 1-800-353-2874 Ext. 6583 for information.

Your price shall not exceed five times the highest published price in *Platt's Gas Daily* for Transco Zone 6 over the previous 45 days.

b. Customer Charge

You will pay $2.99 per month for the customer charge.

c. Security Deposits

We may perform a credit check, and, based on the results of a credit check, you may be required to pay a security deposit or agree to a pre-authorized credit card payment prior to switching your account to Commerce Energy. Commerce Energy will follow applicable regulations.

2. Length of Agreement

You will buy your natural gas services for the above street address from Commerce Energy beginning on your first meter reading date on or after _____, and will continue until this agreement is cancelled by either one of us according to Paragraph 5.

3. Limitation of Liability

Commerce Energy assumes no liability or responsibility for losses or consequential damages arising from the following items associated with your local distribution company: operation and maintenance of their system; any interruption of service; termination of service; or deterioration of service. Nor does Commerce Energy assume responsibility or liability for losses or consequential damages arising from any in-home damages. The remedy in any claim or suit by you against Commerce Energy will be limited to direct actual damages. By entering into this agreement, you waive any right to any other remedy. In no event will either Commerce Energy or you be liable for consequential, incidental or punitive damages. These limitations apply without regard to the cause of any liability or damages.

4. Penalties, Fees and Exceptions

You agree that you will pay your bill on or before the due date shown on the bill. If you do not pay the full amount of the bill by the due date, you will be charged a late payment fee at an interest rate of 1.5% per month on unpaid balances or otherwise in accordance with your NGDC's policies and procedures.

5. Cancellation Provisions

You may cancel this agreement for any reason by giving Commerce Energy 30 days written notice. Commerce Energy may cancel this agreement for any reason by giving you two written notices. The first notice will be sent to you 90 days before the effective date of the cancellation, and the second will be sent to you at least 60 days before the effective date of the cancellation. If you do not pay your bill on time, we may cancel this agreement for non-payment by providing 10 days written notice. If Commerce Energy cancels your service for non-payment, you must pay the balance owed under this agreement plus our reasonable collection costs up to $50.00.

6. Agreement Expiration/Change in Terms

If we propose to change the terms of our service, we will send you two written notices. The first notice will be sent to you 90 days before the effective date of the changes and the second will be sent to you at least 60 days before the effective date of the changes. We will explain your options in these advance notices.

7. Dispute Procedures

Contact us with any questions concerning our terms or service. You may call the Public Utility Commission if you are not satisfied after discussing your terms with us.

8. Contact Information

Supplier Name:	Commerce Energy, Inc.
Address:	600 Anton Blvd., Suite 2000 Costa Mesa, CA 92626
Phone Number:	1-800-353-2874 Ext. 6583
Internet Address:	www.commercenergy.com

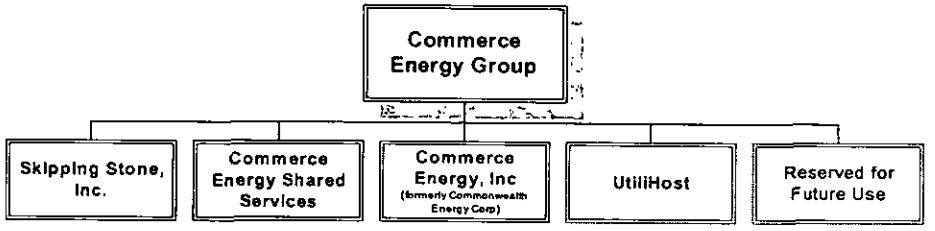
Natural Gas Distribution Company/Supplier of Last Resort

In PECO utility area:	PECO Energy Company 2301 Market Street PO Box 8699 Philadelphia, PA 19101 (215) 841-4000

Universal Service Program: PECO Energy Customer Assistance Program 1-800-782-3228

Public Utility Commission Address:	Pennsylvania Public Utility Commission P.O. Box 3265 Harrisburg, PA 17105-3265
Utility Choice Hotline	1-888-782-3228

Corporate Structure



Commerce ENERGY GROUP

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 31, 2004

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-32239

COMMERCE ENERGY GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0501090**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

600 Anton Boulevard, Suite 2000, Costa Mesa, California 92626
(Address of principal executive offices) (Zip Code)

(714) 259-2500
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of December 12, 2004, 30,619,290 shares of the registrant's common stock were outstanding.

COMMERCE ENERGY GROUP, INC.

Form 10-Q
For the Period Ended October 31, 2004
Index

FORWARD-LOOKING INFORMATION

A number of the matters and subject areas discussed in this Quarterly Report on Form 10-Q contain forward-looking statements reflecting management's current expectations. The discussion of such matters and subject areas is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may differ materially from our actual future experience involving any one or more of such matters and subject areas. We wish to caution readers that all statements other than statements of historical fact included in this Quarterly Report on Form 10-Q regarding our financial position and strategy may constitute forward-looking statements. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "project," "plan," "should," and similar expressions are intended to be among the statements that identify forward-looking statements. All of these forward-looking statements are based upon estimates and assumptions made by our management, which although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed on such estimates and statements. No assurance can be given that any of such estimates or statements will be realized and it is likely that actual results will differ materially from those contemplated by such forward-looking statements. Factors that may cause such differences include those set forth in this Quarterly Report on Form 10-Q, as well as the following:

- *regulatory changes in the states in which we operate that could adversely affect our operations;*
- our continued ability to obtain and maintain licenses from the states in which we operate;
- the *competitive restructuring of retail marketing may prevent us from selling electricity in certain states;*
- our dependence upon a limited number of third parties to generate and supply to us electricity;
- *fluctuations in market prices for electricity;*
- our dependence on the Independent System Operators in each of the states where we operate, to properly coordinate and manage their electric grids, and to accurately and timely calculate and allocate the charges to the participants for the numerous related services provided;
- our ability to obtain credit necessary to support future growth and profitability; and
- *our dependence upon a limited number of utilities to transmit and distribute the electricity we sell to our customers.*

We have attempted to identify, in context, certain of the factors that we currently believe may cause actual future experience and results to differ from our current expectations regarding the relevant matter or subject area. In addition to the items specifically discussed above, our business and results of operations are subject to the risks and uncertainties described in this Report in Management's Discussion and Analysis of Financial Condition and Results of Operations and in our Annual Report on Form 10-K for the year ended July 31, 2004 which we filed with the Securities and Exchange Commission on November 15, 2004. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the Securities and Exchange Commission, and you should not place undue reliance on these statements. These forward-looking statements speak only as of the date on which the statements were made. We assume no obligation to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

COMMERCE ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended October 31,	
	2003	2004
Net revenue	$ 58,396	$ 58,496
Direct energy costs	54,075	52,406
Gross profit	4,321	6,090
Selling and marketing expenses	970	953
General and administrative expenses	5,518	5,007
Reorganization and initial public listing expenses	118	—
Income (loss) from operations	(2,285)	130
Other income and expenses:		
Initial formation litigation expenses	(585)	(1,439)
Minority interest share of loss	544	—
Interest income, net	130	189
Total other income and expenses	89	(1,250)
Loss before benefit from income taxes	(2,196)	(1,120)
Benefit from income taxes	1,074	—
Net loss	$ (1,122)	$ (1,120)
Loss per common share:		
Basic	$ (0.04)	$ (0.04)
Diluted	$ (0.04)	$ (0.04)

The accompanying notes are an integral part of these condensed consolidated financial statements.

COMMERCE ENERGY GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	July 31, 2004	October 31, 2004
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,065	$ 53,757
Accounts receivable, net	31,119	27,452
Income taxes refund receivables	4,423	4,423
Deferred income tax assets	74	74
Prepaid expenses and other current assets	5,141	5,819
Total current assets	94,822	91,525
Restricted cash and cash equivalents	4,008	4,268
Deposits	5,445	5,663
Investments	96	96
Property and equipment, net	2,613	2,409
Goodwill and other intangible assets	3,839	3,671
Total assets	$110,823	$ 107,632
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,576	$ 26,808
Accrued liabilities	6,141	6,364
Total current liabilities	36,717	33,172
Stockholders' equity:		
Common stock — 150,000 shares authorized with $0.001 par value; 30,519 shares issued and outstanding at July 31, 2004 and October 31, 2004	60,796	60,796
Unearned restricted stock compensation	(256)	(232)
Retained earnings	13,566	12,446
Other comprehensive income	—	1,450
Total stockholders' equity	74,106	74,460
Total liabilities and stockholders' equity	$110,823	$ 107,632

The accompanying notes are an integral part of these condensed consolidated financial statements.

COMMERCE ENERGY GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three months ended October 31,	
	2003	2004
Cash Flows From Operating Activities		
Net loss	$ (1,122)	$ (1,120)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	375	354
Amortization	63	168
Provision for doubtful accounts	661	548
Stock-based compensation expense	—	24
Minority interest share of loss of consolidated entity	172	—
Changes in operating assets and liabilities:		
Accounts receivable, net	13,690	3,119
Prepaid expenses and other assets	692	554
Accounts payable	(5,908)	(3,769)
Accrued liabilities and other	307	225
Net cash provided by operating activities	8,930	103
Cash Flows From Investing Activities		
Purchase of property and equipment	(466)	(151)
Net cash used in investing activities	(466)	(151)
Cash Flows From Financing Activities		
Decrease (increase) in restricted cash and cash equivalents	2,337	(260)
Net cash provided by (used in) financing activities	2,337	(260)
Increase (decrease) in cash and cash equivalents	10,801	(308)
Cash and cash equivalents at beginning of period	40,921	54,065
Cash and cash equivalents at end of period	$51,722	$53,757

The accompanying notes are an integral part of these condensed consolidated financial statements.

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COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share and per kWh amounts)

Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements for the three months ended October 31, 2004 include the accounts of Commerce Energy Group, Inc. ("the Company"), its three wholly-owned subsidiaries: Commonwealth Energy Corporation ("Commonwealth") doing business under the brand name *electricAmerica*, Skipping Stone, Inc. ("Skipping Stone"), which was acquired on April 1, 2004, and UtiliHost, Inc. ("UtiliHost"). All material intercompany balances and transactions have been eliminated in consolidation.

At October 31, 2003, the Company's consolidated financial statements included the accounts of its controlled investment in Summit Energy entures, LLC ("Summit"), and its majority ownership in Power Efficiency Corporation ("PEC"). In fiscal 2004, the Company terminated its lationship with Summit and its investment in PEC decreased to 39.9%, therefore, neither entity was consolidated as of July 31, 2004 or as of October 31, 2004. (See Note 4).

reparation of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements have been prepared by the Company's management, without audit, in accordance ith accounting principles generally accepted in the United States and in the opinion of management, contain all adjustments (consisting of nly normal recurring adjustments) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the periods presented. Certain information and note disclosures normally included in consolidated annual financial statements repared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in these onsolidated interim financial statements, although the Company believes that the disclosures are adequate to make the information presented ot misleading. The condensed consolidated results of operations, financial position, and cash flows for the interim periods presented herein are not necessarily indicative of future financial results. These interim condensed consolidated financial statements should be read in conjunction ith the annual consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K r the year ended July 31, 2004.

lses of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts and timing of revenue and expenses, he reported amounts and classification of assets and liabilities, and disclosure of contingent assets and liabilities. These estimates and ssumptions are based on the Company's historical experience as well as management's future expectations. As a result, actual results could differ from management's estimates and assumptions. The Company's management believes that its most critical estimates herein relate to ndependent system operator costs, allowance for doubtful accounts, unbilled receivables and loss contingencies, particularly those associated ith litigation.

Reclassifications

Certain amounts in the condensed consolidated financial statements for the comparative prior fiscal period have been reclassified to be consistent with the current fiscal period's presentation.

COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
(in thousands, except per share and per kWh amounts)

Stock-Based Compensation

The Company accounts for its employee stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No.25"), and related interpretations. Under APB No. 25, no stock-based employee compensation costs are reflected in net loss for the three month periods ended October 31, 2004 and 2003, because all options granted under the plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net loss as applicable to common stock (see Note 2) and loss per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") SFAS No. 123:

	Three months ended October 31,	
	2003	2004
Net loss as applicable to common stock — basic and diluted	$ (1,122)	$ (1,120)
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(42)	(3)
Pro forma net loss — basic and diluted	$ (1,164)	$ (1,123)
Loss per share:		
Basic and diluted — as reported	$ (0.04)	$ (0.04)
Basic and diluted — pro forma	$ (0.04)	$ (0.04)

Segment Reporting

The Company's chief operating decision makers consist of members of senior management that work together to allocate resources to, and assess the performance of, the Company's business. These members of senior management currently manage the Company's business, assess its performance, and allocate its resources as a single operating segment. As we acquired Skipping Stone in fiscal 2004 and its revenue accounts for approximately 1% of total net revenue, and geographic information is not material, no segment information is provided.

. Basic and Diluted Loss per Common Share

Basic loss per common share was computed by dividing net loss available to common stockholders, after any preferred stock dividends, by the weighted average number of common shares outstanding during the period. Diluted loss per common share reflects the potential dilution that would occur if all outstanding options or other contracts to issue common stock were exercised or converted and was computed by dividing net loss by the weighted average number of common shares plus dilutive common equivalent shares outstanding, unless they were anti-dilutive.

COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
(in thousands, except per share and per kWh amounts)

The following is a reconciliation of the numerator (loss) and the denominator (common shares in thousands) used in the computation of basic and diluted loss per common share:

	Three months ended October 31,	
	2003	2004
Numerator:		
Net loss	$ (1,122)	$ (1,120)
Deduct: Preferred stock dividends	(164)	—
Net loss applicable to common stock — basic	(1,286)	(1,120)
Assumed conversion of preferred stock	—	—
Net loss applicable to common stock — diluted	$ (1,286)	$ (1,120)
Denominator:		
Weighted-average outstanding common shares — basic	27,645	30,519
Effect of stock options	—	—
Effect of convertible preferred stock	—	—
Weighted-average outstanding common shares — diluted	27,645	30,519

For the three months ended October 31, 2003 and 2004, the effects of the assumed exercise of all stock options and the assumed conversion of preferred stock into common stock are anti-dilutive; accordingly, such assumed exercises and conversions have been excluded from the calculation of net loss — diluted. If the assumed exercises or conversions had been used, the fully diluted shares outstanding for the three months ended October 31, 2003 and 2004 would have been 29,159 and 30,881, respectively.

3. Market and Regulatory

California

The 1996 California Assembly Bill ("AB") 1890 codified the restructuring of the California electric industry and provided for the right of direct access ("DA"). DA allowed electricity customers to buy their power from a supplier other than the electric distribution utilities beginning January 1, 1998. On April 1, 1998, the Company began supplying customers in California with electricity as an Electric Service Provider ("ESP").

The California Public Utility Commission ("CPUC") issued a ruling on September 20, 2001 suspending direct access. The suspension permitted the Company to keep current customers and to solicit DA customers served by other providers, but prohibited the Company from soliciting new non-DA customers for an indefinite period of time.

In July 2002, the CPUC authorized Southern California Edison ("SCE") to implement a Historical Procurement Charge ("HPC"), to repay debt incurred during the energy crisis. This amount is currently being collected by SCE as a $0.01 per kilowatt-hour ("kWh") surcharge on the retail electricity bill paid by the Company's customers. SCE estimates that full payment could be achieved as soon as early 2006. While the HPC does not directly impact the Company's rate design or revenue, it may affect the Company's ability to retain existing customers or compete for new customers.

COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
(in thousands, except per share and per kWh amounts)

Effective January 1, 2003, the CPUC authorized the electric distribution utilities to charge certain DA customers a surcharge to cover state power contract costs. The Direct Access Customer Responsibility Surcharge ("DA CRS") is currently fixed at $0.027 per kWh. DA CRS is only assessed to those DA customers who enrolled in DA on or after February 1, 2001. In the SCE service territory, the $0.027 DA CRS includes the $0.01 HPC. Those customers enrolled in DA prior to February 1, 2001, in the SCE service territory continue to pay only the $0.01 HPC. While this charge does not directly impact the Company's rate design or revenue, it may affect the Company's ability to retain existing customers or compete for new customers.

In December 2003, Pacific Gas and Electric ("PG&E") and the CPUC reached a settlement in the PG&E bankruptcy. In February 2004, the CPUC approved a rate settlement agreement, which reduced overall customer rates in the PG&E service territory. DA bills have generally declined in the PG&E service territory and the lower rates have affected the Company's revenue and profitability.

Currently, four important issues are under review at the CPUC, a Resource Adequacy Requirement, a Renewable Portfolio Standard, Utilities Long Term Procurement Plans and the General Rate Cases of the electric distribution utilities. Additional costs to serve customers in California are anticipated from these proceedings, however, the CPUC decisions will determine the distribution of those costs across all load serving entities and ultimately the Company's financial impact.

Pennsylvania

In 1996, the Electricity Generation Customer Choice and Competition Act was passed. The law allowed electric customers to choose among competitive power suppliers beginning with one third of the State's consumers by January 1999, two thirds by January 2000, and all consumers by January 2001. The Company began serving customers in the Pennsylvania territory in 1999. There are no current rate cases or filings regarding this territory that are anticipated to impact the Company's financial results.

Michigan

The Michigan state legislature passed two acts, the Customer Choice Act and Electricity Reliability Act, signed into law on June 3, 2000. Open access, or Choice, became available to all customers of Michigan electric distribution utilities, beginning January 1, 2002. The Company began marketing in Michigan's Detroit Edison ("DTE") service territory in September 2002.

In February 2004, the Michigan Public Service Commission ("MPSC") issued an interim order granting partial but immediate rate relief to DTE, the Company's primary electric distribution utility market in Michigan. The order significantly reduced the savings of commercial customers who choose an alternative electric supplier, such as the Company. These changes have adversely affected the Company's ability to retain some of the Company's existing customers and obtain new customers, primarily among larger commercial customers.

In November 2004, the MPSC issued the final order in the DTE General Rate case making slight changes in the rates originally approved in the interim order issued in February 2004. The final order slightly decreased charges applied to savings of large commercial customers who choose an alternative electric supplier, while generally maintaining the charges for smaller commercial customers. More notable changes were made to rules regarding moving between the local utility and alternative suppliers. New customers electing service from alternative providers must remain outside utility service for a minimum of two years. Additionally, the local utility now requires substantial notice prior to returning to their service. Overall rate and rule changes are not expected to have a significant impact to the Company's ability to retain its existing customers and obtain new customers.

The Michigan Senate has energy restructuring language before it in various bills, supported by the electric distribution utilities, which could negatively impact competition in the Michigan electric market.

COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
(in thousands, except per share and per kWh amounts)

New Jersey

Deregulation activities began in New Jersey in November 1999 when the Board of Public Utilities, or BPU, approved the implementation plan. The Company began marketing in New Jersey in the Public Service Electric and Gas service territory in December 2003.

The Basic Generation Service is the comparable utility price for small and large commercial accounts and includes a reconciliation charge which can change on a monthly basis. Reconciliation charge fluctuations can affect the Company's ability to remain competitive against the comparable utility pricing.

Investments

The Company has three early stage investments in energy related entities incurring operating losses, which are expected to continue, at least in the near term: Encorp, Inc. ("Encorp"), Turbocor B.V. ("Turbocor") and Power Efficiency Corporation ("PEC"). They each have very limited working capital and as a result, continuing operations will be dependent upon their securing additional financing to meet their immediate capital needs. The Company has no obligation, and currently no intention of investing additional funds into these companies.

At October 31, 2004, the Company's ownership interest in Encorp, Turbocor and PEC was 2.3%, 9.3% and 39.9%, respectively. The Company accounts for its investment in Encorp and Turbocor under the cost method of accounting. Although the Company currently accounts for its investment in PEC (ticker symbol: PEFF) under the equity method of accounting, in fiscal 2004, the Company recorded a loss sufficient to reduce the Company's investment basis in PEC to zero and, therefore, it will have no negative impact on the Company's financial results in the current fiscal year. At October 31, 2003, PEC was consolidated in the Company's financial statements.

5. Contingencies

Litigation

On January 15, 2003, the Company filed a complaint in the United States District Court for the Central District of California entitled Commonwealth Energy Corporation v. Wayne Mosley; et al. against several dissident stockholders who the Company believes had illegally solicited proxies in connection with the annual meeting of stockholders on January 21, 2003. On February 6, 2003, the Company filed an amended complaint in this lawsuit asking the court to confirm that its Board of Directors had been legally elected by the stockholders and validating the inspector's determination at the annual meeting that the proxy materials sent by defendants had violated several Securities and Exchange Commission ("SEC") rules and regulations and that the resulting proxies were invalid. On June 10, 2003, the court issued a default judgment against certain defendants, finding 1) the Company properly conducted the election at the Company's annual meeting and the inspector of elections was correct in rejecting the proxies solicited by the group; 2) the inspector of elections counted the votes and proxies properly (and thus the elections results were validated); and 3) the challenged proxies violated various SEC rules and were therefore invalid. Three members of the group, and all persons acting in concert with them, were ordered by the court to comply with all federal securities laws and SEC rules in any future attempts to solicit proxies. However, two additional defendants, who were not subject to the court's earlier ruling, brought a counterclaim against the Company on November 14, 2003 alleging that its Board of Directors was not properly elected at the annual meeting. This action is currently pending and seeks an order voiding the results of the Board of Directors election at the 2003 annual meeting and compelling the Company to seat certain other persons whom they allege should have been elected to the Board. No damages are currently being sought by plaintiffs in this case. The Company intends to defend these counter-claims vigorously.

On February 14, 2003, the Company filed a complaint in the Orange County Superior Court against Joseph Ogundiji seeking a judicial declaration invalidating 80 shares of its capital stock Mr. Ogundiji claims to hold. On April 11, 2003, Mr. Ogundiji filed and served an answer and cross-complaint alleging claims against the Company for breach of contract, conversion, declaratory relief, promissory estoppel, unlawful denial of voting rights pursuant to California Corporations Code Section 709, illegal stock dividends in violation of California Corporations Code Section 25120, and unjust enrichment. The cross-complaint seeks an unspecified amount of general and punitive damages. This matter is scheduled for trial on June 20, 2005.

COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
(in thousands, except per share and per kWh amounts)

On November 20, 2003, the Company filed a Notice of Appeal in the California Court of Appeal's in Saline v. Commonwealth Energy Corporation. The appealed order was entered after the first of two trial phases and requires Commonwealth to recognize the shares of other convertible preferred stock held by plaintiff, Joseph Saline, a former director, as valid. A second phase of the trial is scheduled for January 18, 2005, Commonwealth recently prevailed on its motion for summary adjudication of Mr. Saline's conversion claim, so only a breach of contract claim remains for trial. Another case brought by Mr. Saline, Saline v. Commonwealth Energy Corporation has been consolidated with this case for trial on January 18, 2005. The remaining claims in the second case are allegations by Commonwealth and/or certain intervenor plaintiffs that Mr. Saline breached his fiduciary duties as a director, libeled the Company, and illegally tape recorded certain board meetings. In this second case, Mr. Saline has appealed the trial court's denial of his motion to strike the libel claims and refusal to award him attorney's fees related to his original claim concerning his access to corporate documents.

On November 25, 2003, several stockholders filed a lawsuit against the Company entitled Coltrain, et al. v. Commonwealth Energy Corporation, et al. The complaint purports to be a class action against the Company for violations of section 709 of the California Corporations Code. The plaintiffs allege that the Company failed to correctly count approximately 39,869 votes cast at the 2003 annual meeting and, as a result, the Board of Directors was not properly elected. Instead, the plaintiffs allege that four different persons would have been seated on the board had the votes been tabulated in the manner advocated by the plaintiffs. This case involves identical issues of law and fact as the counterclaim discussed above in Commonwealth Energy Corporation v. Wayne Moseley, et al. and is currently pending. Commonwealth recently settled with one of the plaintiffs in this case, Coltrain. Commonwealth is vigorously defending this action.

On April 19, 2004, Mr. Saline and Mr. Ogundiji filed an action in California Superior Court for Orange County, alleging that Commonwealth Energy Corporation's Board of Directors (other than Mr. Saline) breached their fiduciary duties and breached the covenant of good faith and fair dealing by approving and putting to a stockholder vote the recent reorganization plan, which resulted in Commonwealth becoming a wholly-owned subsidiary of Commerce Energy Group, Inc. In addition, they allege that Commonwealth improperly failed to hold an annual meeting within the time limits set by California Corporations Code Section 600, improperly used the reorganization to alter their rights as preferred shareholders, and improperly refused to hold a vote just among preferred stockholders regarding the reorganization. Up to this point in the litigation, Mr. Saline and Mr. Ogundiji have attempted to block the special meeting at which the reorganization was approved, to enjoin the reorganization, to unwind the reorganization and to de-list the shares of common stock of Commerce listed on the AMEX, but were not successful. Because our directors are defendants in this case, pursuant to the terms of the indemnification agreements between Commonwealth and its directors, we are required to indemnify the directors to the fullest extent allowed by law. The indemnification agreement covers any expenses and/or liabilities reasonably incurred in connection with the investigation, defense, settlement or appeal of legal proceedings. The obligation to provide indemnification does not apply if the officer or director is found to be liable for fraudulent or criminal conduct. Pursuant to the indemnification agreement, the Company is currently providing a joint defense with the directors in this action. This matter is scheduled for trial in September 12, 2005 and Commonwealth will defend vigorously.

The Company currently is, and from time to time may become, involved in other litigation concerning claims arising out of the Company's operations in the normal course of business. While the Company cannot predict the ultimate outcome of its pending matters or how they will affect the Company's results of operations or financial position, the Company's management currently does not expect any of the legal proceedings to which the Company is currently a party, including the legal proceedings described above, individually or in the aggregate, to have a material adverse effect on its results of operations or financial position beyond the accruals provided as of October 31, 2004.

Derivative Financial Instruments

The Company's activities expose it to a variety of market risks including commodity prices and interest rates. Management has established risk management policies and strategies to reduce the potentially adverse effects that the price volatility of these markets may have on its operating results. The Company's risk management activities,

COMMERCE ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
(in thousands, except per share and per kWh amounts)

cluding the use of derivative instruments, are subject to the management, direction and control of an internal risk oversight committee. The Company maintains commodity price risk management strategies that use derivative instruments within strict risk tolerances to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. Derivative instruments measured at fair market value are recorded on the balance sheet as an asset or liability. Changes in fair market value are recognized currently in earnings unless specific hedge accounting criteria are met.

Supplying electricity to retail customers requires the Company to match customers' projected demand with fixed price purchases. The Company primarily uses forward physical energy purchases and derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. In certain markets where the Company operates, entering into forward fixed price contracts may be expensive relative to derivative alternatives. Derivative instruments, primarily swaps and futures, are used to hedge the future purchase price of electricity for the applicable forecast usage protecting the Company from significant price volatility. In the first fiscal quarter of 2005, certain forward fixed price purchases and swap agreements were designated as cash flow hedges resulting in changes in the hedge value being deferred in other comprehensive income ("OCI"). To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value was recorded in direct energy costs. The Company also entered into transactions that did not qualify as accounting hedges but were designed to take advantage of trends in wholesale power prices to reduce its direct energy costs. Some of these transactions do not qualify for hedge accounting treatment under SFAS 133. In such cases, the changes in the fair value of these transactions are recorded in earnings as a component of direct energy costs. The Company did not engage in trading activities in the wholesale energy market other than to manage its direct energy cost in an attempt to improve the profit margin associated with its customer requirements.

The amounts recorded in OCI at October 31, 2004 related to cash flow hedges are summarized in the following table:

	July 31, 2004	Increase (Decrease) in OCI	October 31, 2004
Current assets	$ —	$1,450	$ 1,450
Other comprehensive income	$ —	$1,450	$ 1,450

The Company does not use derivative instruments related to its interest rate exposure at this time.

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tem 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a diversified energy services company. We provide electric power to our residential, commercial, industrial and institutional ustomers in the California, Pennsylvania, Michigan and New Jersey electricity markets. We are licensed by the Federal Energy Regulatory Commission, or FERC, as a power marketer. In addition to the state agencies in which we currently operate, we are also licensed to supply tail electric power by applicable state agencies in New York, Maryland, Texas, Ohio and Virginia.

As of October 31, 2004, we delivered electricity to approximately 100,000 customers in California, Pennsylvania, Michigan and New ersey. The growth of this business depends upon the degree of deregulation in each state, the availability of energy at competitive prices and redit terms, and our ability to acquire retail or commercial customers.

Our core business is the retail sale of electricity to end-use customers. All of the power we sell to our customers is purchased from third-arty power generators under long-term contracts and in the spot market. We do not own electricity generation facilities, with the exception of mall experimental renewal energy assets. The electric power we sell is generally metered and delivered to our customers by local incumbent electric distribution utilities, or local utilities. The local utilities also provide billing and collection services for most of our customers on our behalf. To facilitate load shaping and balancing for our retail customer portfolio, we also buy and sell surplus electric power from and to other arket participants when necessary.

We buy electricity in the wholesale market in blocks of time-related quantities usually at fixed prices. We sell electricity in the real time arket based on the demand from our customers at contracted prices. We manage the inherent mismatch between our block purchases and our les by buying and selling in the spot market. In addition, the independent system operators ("ISO"), the entities which manage each of the electric grids in which we operate, perform real time load balancing. We are charged or credited for electricity purchased and sold for our account by the ISO.

There are inherent risks and uncertainties in our core business operations. These include: regulatory uncertainty, timing differences between our purchases and sales of electricity, forecasting error between our estimated customer usage and the customer's actual usage, weather related hanges in quantities demanded by our customers, customer attrition, spread changes between on-peak and off-peak power pricing and seasonal ifferences between summer and winter demand, and spring and fall demand seasons, unexpected factors in the wholesale power markets such as regional power plant outages, volatile fuel prices (used to generate the electricity that we buy), transmission congestion or system failure, and credit related counter-party risk for us or within the grid system generally. Accordingly, these uncertainties may produce results that can iffer significantly from our internal forecasts. For a discussion of other risks related to the operation of our business, see the discussion herein nder the caption "Factors That May Affect Future Results."

Skipping Stone, Inc., or Skipping Stone, which we acquired in April 2004, provides energy-related consulting and technologies to utilities, lectricity generators, natural gas pipelines, wholesale energy merchants, energy technology providers and investment banks. Skipping Stone is our wholly-owned subsidiary and its revenue (after elimination of intercompany transactions) was less than 1% of our consolidated totals for the three months ended October 31, 2004.

In fiscal 2004, we consolidated Summit Energy Ventures, or Summit, and its majority interest in Power Efficiency Corporation, or PEC, into our financial results. In the third fiscal quarter of 2004, we terminated our relationship with Summit, and we retained only a 39.9% interest n PEC, therefore, we are no longer consolidating either Summit or PEC in our current fiscal year financial results. Although we currently ccount for our investment in PEC under the equity method of accounting, in fiscal 2004, we recorded a loss sufficient to reduce our investment basis in PEC to zero and, therefore, it will have no negative impact on our financial results in the current fiscal year.

The information in this Item 2, should be read in conjunction with the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations

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ontained in the Company's Annual Report on Form 10-K for the year ended July 31, 2004, and the unaudited condensed consolidated nancial statements and notes thereto included in this Quarterly Report.

Market and Regulatory

alifornia

The 1996 California Assembly Bill, or AB, 1890 codified the restructuring of the California electric industry and provided for the right of rect access, or DA. DA allowed electricity customers to buy their power from a supplier other than the electric distribution utilities beginning January 1, 1998. On April 1, 1998, we began supplying customers in California with electricity as an Electric Service Provider, or ESP.

The California Public Utility Commission, or CPUC, issued a ruling on September 20, 2001 suspending direct access. The suspension permitted us to keep current customers and to solicit DA customers served by other providers, but prohibited us from soliciting new non-DA customers for an indefinite period of time.

In July 2002, the CPUC authorized Southern California Edison, or SCE, to implement a Historical Procurement Charge, or HPC, to repay debt incurred during the energy crisis. This amount is currently being collected by SCE as a $0.01 per kilowatt-hour, or kWh, surcharge on the etail electricity bill paid by our customers. SCE estimates that full payment could be achieved as soon as early 2006. While the HPC does not irectly impact our rate design or revenue, it may affect our ability to retain existing customers or compete for new customers.

Effective January 1, 2003, the CPUC authorized the electric distribution utilities to charge certain DA customers a surcharge to cover state ower contract costs. The Direct Access Customer Responsibility Surcharge, or DA CRS, is currently fixed at $0.027 per kWh. DA CRS is nly assessed to those DA customers who enrolled in DA on or after February 1, 2001. In the SCE service territory, the $0.027 DA CRS includes the $0.01 HPC. Those customers enrolled in DA prior to February 1, 2001, in the SCE service territory continue to pay only the $0.01 HPC. While this charge does not directly impact our rate design or revenue, it may affect our ability to retain existing customers or compete for ew customers.

In December 2003, Pacific Gas and Electric, or PG&E, and the CPUC reached a settlement in the PG&E bankruptcy. In February 2004, the CPUC approved a rate settlement agreement, which reduced overall customer rates in the PG&E service territory. DA bills have generally eclined in the PG&E service territory and the lower rates have affected our revenue and profitability.

Currently, four important issues are under review at the CPUC, a Resource Adequacy Requirement, a Renewable Portfolio Standard, Utilities Long Term Procurement Plans and the General Rate Cases of the electric distribution utilities. Additional costs to serve customers in California are anticipated from these proceedings, however, the CPUC decisions will determine the distribution of those costs across all load serving entities and ultimately the financial impact on us.

ennsylvania

In 1996, the Electricity Generation Customer Choice and Competition Act was passed. The law allowed electric customers to choose among ompetitive power suppliers beginning with one third of the State's consumers by January 1999, two thirds by January 2000, and all consumers by January 2001. We began serving customers in the Pennsylvania territory in 1999. There are no current rate cases or filings regarding this territory that are anticipated to impact our financial results.

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Michigan

The Michigan state legislature passed two acts, the Customer Choice Act and Electricity Reliability Act, signed into law on June 3, 2000. Open access, or Choice, became available to all customers of Michigan electric distribution utilities, beginning January 1, 2002. We began marketing in Michigan's Detroit Edison, or DTE, service territory in September 2002.

In February 2004, the Michigan Public Service Commission, or MPSC, issued an interim order granting partial but immediate rate relief to DTE, our primary electric distribution utility market in Michigan. The order significantly reduced the savings of commercial customers who choose an alternative electric supplier, such as us. These changes have adversely affected our ability to retain some of our existing customers and obtain new customers, primarily among larger commercial customers.

In November 2004, the MPSC issued the final order in the DTE General Rate case making slight changes in the rates originally approved in the interim order issued in February 2004. The final order slightly decreased charges applied to savings of large commercial customers who choose an alternative electric supplier, while generally maintaining the charges for smaller commercial customers. More notable changes were made to rules regarding moving between the local utility and alternative suppliers. New customers electing service from alternative providers must remain outside utility service for a minimum of two years. Additionally, the local utility now requires substantial notice prior to returning to their service. Overall rate and rule changes are not expected to have a significant impact to our ability to retain our existing customers and obtain new customers.

The Michigan Senate has energy restructuring language before it in various bills, supported by the electric distribution utilities, which could negatively impact competition in the Michigan electric market.

New Jersey

Deregulation activities began in New Jersey in November 1999 when the Board of Public Utilities approved the implementation plan. We began marketing in New Jersey in the Public Service Electric and Gas service territory in December 2003.

The Basic Generation Service is the comparable utility price for small and large commercial accounts and includes a reconciliation charge which can change on a monthly basis. Reconciliation charge fluctuations can affect our ability to remain competitive against the comparable utility pricing.

Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and operating results are based on our consolidated financial statements. The preparation of this Form 10-Q requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in our notes to the condensed consolidated financial statements. The accounting policies discussed below are those that we consider to be critical to an understanding of our financial statements because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on our financial results. For all of these policies, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

- *Purchase and sale accounting* — In fiscal 2004 and 2005, we purchased substantially all of our power under long-term forward physical delivery contracts for supply to our retail electricity customers. We apply the normal purchase, normal sale accounting treatment to our forward purchase supply contracts and our customer sales contracts. Accordingly, we record revenue generated from our sales contracts as energy is delivered to our retail customers, and direct energy costs are recorded when the energy under our long-term forward physical delivery contracts is delivered. In the first quarter of fiscal 2005, we also employed financial hedges using derivative instruments, to hedge our

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commodity price risks. In the first fiscal quarter of 2005, certain forward fixed price purchases and swap agreements were designated as cash flow hedges resulting in changes in the hedge value being recorded as other comprehensive income, or OCI. To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value is recorded currently in direct energy costs. We intend to use derivative instruments as an efficient way of assisting in managing our price and volume risk in energy supply procurement for our retail customers. Certain derivative instrument treatment may not qualify for hedge treatment and require mark-to-market accounting in accordance with the Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standard, or SFAS, No. 133, "Accounting for Derivative Instruments and Hedging Activities".

- *Independent system operator costs* — Included in direct energy costs, along with electric power that we purchase, are scheduling coordination costs and other ISO fees and charges. The actual ISO costs are not finalized until a settlement process by the ISO is performed for each day's activities for all grid participants. Prior to the completion of settlement (which may take from one to several months), we estimate these costs based on historical trends and preliminary settlement information. The historical trends and preliminary information may differ from actual fees resulting in the need to adjust the previously estimated costs.

- *Allowance for doubtful accounts* — We maintain allowances for doubtful accounts for estimated losses resulting from non-payment of customer billings. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- *Unbilled receivables* — Our customers are billed monthly at various dates throughout the month. Unbilled receivables represent the amount of electric power delivered to customers at the end of a reporting period, but not yet billed. Unbilled receivables from sales are estimated by us to be the number of kilowatt-hours delivered, but not yet billed, multiplied by the current customer average sales price per kilowatt-hour.

- *Legal matters* — From time to time, we may be involved in litigation matters. We regularly evaluate our exposure to threatened or pending litigation and other business contingencies and accrue for estimated losses on such matters in accordance with SFAS No. 5, "Accounting for Contingencies." As additional information about current or future litigation or other contingencies becomes available, management will assess whether such information warrants the recording of additional expense relating to our contingencies. Such additional expense could potentially have a material adverse impact on our results of operations and financial position.

Results of Operations

In the following comparative analysis, all percentages are calculated based on dollars in thousands. The states of Pennsylvania and New Jersey are within the same ISO territory and procurement of power is not managed separately, therefore, they are referred to as the ennsylvania market below.

Three months ended October 31, 2004 compared to three months ended October 31, 2003.

Net revenue of $58.5 million remained constant for the three months ended October 31, 2004 compared to the three months ended October 31, 2003. Gross profit increased $1.8 million, or 41%, to $6.1 million for the three months ended October 31, 2004 compared to $4.3 million for the same prior year period. The gross profit improvement in the three months ended October 31, 2004 was primarily due to ubstantial improvement in the operating income contribution in Pennsylvania which offset the continuing pressure on gross profit in the alifornia business. The Company's operating results for the three months ended October 31, 2004 included income from operations of $0.1 million compared to a loss of $2.3 million for the same prior year period.

et revenue

Revenue of $58.5 million in the current year resulted primarily from increased energy sales of $2.4 million in Michigan offset by a decrease California of $2.3 million compared to the prior year period. In Michigan, we sold 209 million kWh at an average retail price per kWh of $0.057 in the three months ended October 31, 2004, as compared to 179 million kWh at an average retail price per kWh of $0.054 in the same period last year. The

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Increase in volume was primarily due to continued increases in our Michigan customer base. In California, we sold 324 million kWh at an average retail price per kWh of $0.068 in the three months ended October 31, 2004, as compared to 355 million kWh sold at an average retail price per kWh of $0.068 in the same period last year. The decrease in volume was primarily due to customer attrition attributable to our efforts to improve profitability per customer. In Pennsylvania, we sold 405 million kWh at an average retail price per kWh of $0.059 in the three months ended October 31, 2004, as compared to 413 million kWh sold at an average retail price per kWh of $0.059 in the same period last year.

At October 31, 2004, we had approximately 100,000 customers compared to 115,000 customers at October 31, 2003. The number of customers has decreased due to our profitability per customer focus, reducing the number of residential customers, which have much lower average usage, and are less profitable. The decrease was 12% in California and 19% in Pennsylvania, while we increased our customer base in Michigan by 54% and entered the New Jersey market in December 2003.

Direct energy costs

Direct energy costs, which are recognized concurrently with related energy sales, include the aggregated cost of purchased electric power, fees incurred from various energy-related service providers and energy-related taxes that cannot be passed directly through to the customer. Our direct energy costs decreased to $52.4 million for the three months ended October 31, 2004, a decrease of $1.7 million, or 3%, from $54.1 million for the three months ended October 31, 2003.

The decrease in direct energy costs occurred primarily in Pennsylvania partially offset by increases in Michigan and California. In Pennsylvania, our average cost per kWh was $0.055 for the three months ended October 31, 2004, as compared to an average cost per kWh of $0.063 for the same period in fiscal 2003. In Michigan, our average cost per kWh was $0.051 for the three months ended October 31, 2004, as compared to an average cost per kWh of $0.048 for the same period last year. In California, our average cost per kWh was $0.059 for the three months ended October 31, 2004, as compared to an average cost per kWh of $0.054 for the same period in fiscal 2003.

Selling and marketing expenses

Our selling and marketing expenses remained constant at $1.0 million for the three months ended October 31, 2004 and 2003.

General and administrative expenses

Our general and administrative expenses decreased $0.5 million, or 9%, to $5.0 million for the three months ended October 31, 2004 compared to $5.5 million in the three months ended October 31, 2003. The decrease was primarily attributed to fiscal 2003 management fee expenses of $0.2 million incurred in connection with Summit, which we no longer incur due to the termination of the Summit agreement at the end of fiscal 2003. The remaining decrease was attributable to various expense categories within general and administrative expenses.

Reorganization and initial public listing expenses

We incurred $0.1 million in the first quarter of fiscal 2004 of costs related to our reorganization into a Delaware holding company structure and the initial public listing of our common stock on the American Stock Exchange. Management believes it is appropriate to classify these costs as a separately identified selling, general and administrative expense category, and include expenses such as legal, accounting, auditing, consulting, and printing and reproduction fees that are specific to these activities. We incurred no reorganization and initial public listing expenses in fiscal 2005.

Initial formation litigation expenses

In the three months ended October 31, 2004, we incurred $1.4 million of initial formation litigation costs related to Commonwealth Energy Corporation's formation compared to $0.6 million of such costs incurred during the three

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onths ended October 31, 2003. Initial formation litigation expenses include legal and litigation costs associated with the initial capital raising forts by former Commonwealth Energy Corporation employees, various board member matters, and the legal complications arising from those activities.

inority interest share of loss

Minority interests in fiscal 2004 represent that portion of PEC's post-consolidation losses that are allocated to the non-Summit investors sed on their aggregate minority ownership interest in PEC. PEC is no longer consolidated in the Company's financial statements in fiscal 005.

enefit from income taxes

No provision for or benefit from income taxes was recorded for the three months ended October 31, 2004; as compared to the benefit from ncome taxes of $1.1 million for the three months ended October 31, 2003. In fiscal 2005, we established a valuation allowance equal to our lculated tax benefit, because we believed it was not certain that we would realize these tax benefits in the foreseeable future.

Liquidity and Capital Resources

As of October 31, 2004, our unrestricted cash and cash equivalents were $53.8 million, compared to $54.1 million at July 31, 2004 and our restricted cash and cash equivalents were $4.3 million, compared to $4.0 million at July 31, 2004. Our principal sources of liquidity to fund ngoing operations were cash provided by operations and existing cash and cash equivalents.

Cash flow provided by operations for the three months ended October 31, 2004 was $0.1 million, compared to $8.9 million in the three months ended October 31, 2003. In the three months ended October 31, 2004, cash was provided primarily by a decrease in accounts receivable f $3.1 million offset by cash used primarily to decrease accounts payable by $3.8 million.

Cash flow used in investing activities for the three months ended October 31, 2004 was $0.2 million compared to $0.5 million for the three months ended October 31, 2003. Cash used in investments consisted of capital expenditures.

Cash flow used in financing activities for the three months ended October 31, 2004 was $0.3 million, compared to cash flow provided by financing activities of $2.3 million in the three months ended October 31, 2003. In the prior fiscal year, restricted cash increased primarily due o the partial reduction of the required security for an appeals bond related to litigation.

The Company does not have open lines of credit for direct unsecured borrowings or letters of credit. Credit terms from our suppliers of electricity often require us to post collateral against our energy purchases and against our mark-to-market exposure with certain of our uppliers. We currently finance these collateral obligations with our available cash. If we are required to post such additional security, a portion of our cash would become restricted, which could adversely affect our liquidity. As of October 31, 2004, we had $4.3 million in restricted cash o secure letters of credit required by our suppliers and $5.4 million in deposits pledged as collateral in connection with energy purchase greements.

Based upon our current plans, level of operations and business conditions, we believe that our cash and cash equivalents, and cash generated rom operations will be sufficient to meet our capital requirements and working capital needs for the foreseeable future. However, there can be o assurance that we will not be required to seek other financing in the future or that such financing, if required, will be available on terms satisfactory to us.

Contractual Obligations

For the three months ended October 31, 2004, we have entered into additional electricity purchase contracts in the normal course of doing usiness for $14.1 million. These contracts are for less than one year and are with various suppliers.

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Factors That May Affect Future Results

If competitive restructuring of the electric markets is delayed or does not result in viable competitive market rules, our business will be adversely affected.

The Federal Energy Regulatory Commission, or FERC, has maintained a strong commitment over the past seven years to the deregulation of electricity markets. This movement would seem to indicate the continuation and growth of a competitive electric retail industry. Twenty-four states and the District of Columbia have either enacted enabling legislation or issued a regulatory order to implement retail access. In 18 of these states, retail access is either currently available to some or all customers, or will soon be available. However, in many of these markets the market rules adopted have not resulted in energy service providers being able to compete successfully with the local utilities and customer switching rates have been low. Only recently have a small number of markets opened to competition under rules that we believe may offer attractive competitive opportunities. Our business model depends on other favorable markets opening under viable competitive rules in a timely manner. In any particular market, there are a number of rules that will ultimately determine the attractiveness of any market. Markets that we enter may have both favorable and unfavorable rules. If the trend towards competitive restructuring of retail energy markets does not continue or is delayed or reversed, our business prospects and financial condition could be materially adversely impaired.

Retail energy market restructuring has been and will continue to be a complicated regulatory process, with competing interests advanced not only by relevant state and federal utility regulators, but also by state legislators, federal legislators, local utilities, consumer advocacy groups and potential market participants. As a result, the extent to which there are legitimate competitive opportunities for alternative energy suppliers in a given jurisdiction may vary widely and we cannot be assured that regulatory structures will offer us competitive opportunities to sell energy to consumers on a profitable basis. The regulatory process could be negatively impacted by a number of factors, including interruptions of service and significant or rapid price increases. The legislative and regulatory processes in some states take prolonged periods of time. In a number of jurisdictions, it may be many years from the date legislation is enacted until the retail markets are truly open for competition.

In addition, although most retail energy market restructuring has been conducted at the state and local levels, bills have been proposed in Congress in the past that would preempt state law concerning the restructuring of the retail energy markets. Although none of these initiatives has been successful, we cannot assure stockholders that federal legislation will not be passed in the future that could materially adversely affect our business.

We face many uncertainties that may cause substantial operating losses and we cannot assure stockholders that we can achieve and maintain profitability.

We intend to increase our operating expenses to develop and expand our business, including brand development, marketing and other promotional activities and the continued development of our billing, customer care and power procurement infrastructure. Our ability to operate profitably will depend on, among other things:

- Our ability to attract and to retain a critical mass of customers at a reasonable cost;
- Our ability to continue to develop and maintain internal corporate organization and systems;
- The continued competitive restructuring of retail energy markets with viable competitive market rules; and
- Our ability to effectively manage our energy procurement and shaping requirements, and to sell our energy at a sufficient profit margin.

We may have difficulty obtaining a sufficient number of customers.

We anticipate that we will incur significant costs as we enter new markets and pursue customers by utilizing a variety of marketing methods. In order for us to recover these expenses, we must attract and retain a large number of customers to our service.

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We may experience difficulty attracting customers because many customers may be reluctant to switch to a new supplier for a commodity as critical to their well-being as electric power. A major focus of our marketing efforts will be to convince customers that we are a reliable provider with sufficient resources to meet our commitments. If our marketing strategy is not successful, our business, results of operations and financial condition could be materially adversely affected.

We depend upon internally developed systems and processes to provide several critical functions for our business, and the loss of these functions could materially adversely impact our business.

We have developed our own systems and processes to operate our back-office functions, including customer enrollment, metering, forecasting, settlement and billing. Problems that arise with the performance of our back-office functions could result in increased expenditures, delays in the launch of our commercial operations into new markets, or unfavorable customer experiences that could materially adversely affect our business strategy. Also, any interruption of these services could be disruptive to our business.

Substantial fluctuations in electricity prices or the cost of transmitting and distributing electricity could have a material adverse affect on us.

To provide electricity to our customers, we must, from time to time, purchase electricity in the short-term or spot wholesale energy markets, which can be highly volatile. In particular, the wholesale electric power market can experience large price fluctuations during peak load periods. Furthermore, to the extent that we enter into contracts with customers that require us to provide electricity at a fixed price over an extended period of time, and to the extent that we have not purchased electricity to cover those commitments, we may incur losses caused by rising wholesale electricity prices. Periods of rising electricity prices may reduce our ability to compete with local utilities because their regulated rates may not immediately increase to reflect these increased costs. Energy Service Providers like us take on the risk of purchasing power for an uncertain load and if the load does not materialize as forecast, it leaves us in a long position that would be resold into the wholesale electricity market. Sales of this surplus electricity could be at prices below our cost. Conversely, if unanticipated load appears that may result in an insufficient supply of electricity, we would need to purchase the additional supply. These purchases could be at prices that are higher than our sales price to our customers. Either situation could create losses for us if we are exposed to the price volatility of the wholesale spot markets. Any of these contingencies could substantially increase our costs of operation. Such factors could have a material adverse effect on our financial condition.

We are dependent on local utilities for distribution of electricity to our customers over their distribution networks. If these local utilities are unable to properly operate their distribution networks, or if the operation of their distribution networks is interrupted for periods of time, we could be unable to deliver electricity to our customers during those interruptions. This would results in lost revenue to us, which could adversely impact the results of our operations.

Historical procurement charges and customer rate changes in the Southern California Edison utility district could adversely affect our revenue and cash flows.

Under a Settlement agreement with the California PUC, SCE was authorized to recoup $3.6 billion in debt incurred during the energy crisis of 2000-2001 from all customers. This debt was to be collected under the Procurement Related Obligations Account, or PROACT, from bundled (non direct access) customers and under the HPC from DA customers.

In July 2002, the California PUC issued an interim order implementing the HPC sought by SCE. This interim order authorized SCE to collect $391 million in HPC charges from all DA customers by reducing their Procured Energy Credit, or PE Credit, by $0.027 per kWh beginning July 27, 2002. The lowered PE Credit continued until an exit fee for DA customers was approved by the CPUC. Effective January 1, 2003, it was reduced to $0.01 per kWh. For the fiscal year ended July 31, 2003, we estimate that HPC charges have impacted our sales and pretax earnings by a range of $4.8 million to $6.0 million. We are unable to precisely determine the actual HPC charges applied to our customers by SCE because there are different charges, by customer type, and this charge is only on the electricity usage above the monthly baseline usage allocation.

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On September 5, 2003 the CPUC issued Decision 03-09-016 granting SCE's request to recover additional shortfall and authorizing the HPC alance to be revised to $473 million; however, the $0.01 per kWh monthly charge remained in place. As of August 1, 2003, SCE revised its illing methodology to a "bottoms-up" design effectively doing away with the PE Credit and the net effect of the HPC on our rates. While the HPC no longer discretely impacts our rate calculations, a recent SCE rate reduction includes the former impact of the HPC. This rate reduction ill impact sales and pretax profit in the SCE district. The rate reduction will be in place in 2004 and will approximate the effect of the HPC ollar impact of 2003.

Recently, SCE acknowledged that the PROACT debt was paid in full by bundled customers at the end of July 2003. As a result, on ugust 1, 2003, all SCE rates were lowered. As a direct result, to retain our customers in the SCE utility district, we lowered our customer rates proportionately. Our estimate of the annual financial impact of this rate reduction is a decline in sales and pretax profit during fiscal 2004, in the range of $3.0 to $3.5 million. This reduction is separate from, and in addition to, the HPC related reduction in 2003.

These changes in the SCE service territory will continue to cause a significant impact on our revenue and cash flow; however, we currently do not expect they will preclude us from continuing to participate in the SCE market.

ome suppliers of electricity have been experiencing deteriorating credit quality.

We continue to monitor our suppliers' credit quality to attempt to reduce the impact of any potential counterparty default. As of October 31, 004, the majority of our counterparties are rated investment grade or above by the major rating agencies. These ratings are subject to change at ny time with no advance warning. A deterioration in the credit quality of our suppliers could have an adverse impact on our sources of electricity purchases.

f the wholesale price of electricity decreases, we may be required to post letters of credit for margin to secure our obligations under our long term energy contracts.

As the price of the electricity we purchase under long-term contracts is fixed over the term of the contracts, if the market price of wholesale electricity decreases below the contract price, the power generator may require us to post margin in the form of a letter of credit, or other collateral, to protect themselves against our potential default on the contract. If we are required to post such security, a portion of our cash ould become restricted, which could adversely affect our liquidity.

We are required to rely on utilities with whom we will be competing to perform some functions for our customers.

Under the regulatory structures adopted in most jurisdictions, we will be required to enter into agreements with local utilities for use of the local distribution systems, and for the creation and operation of functional interfaces necessary for us to serve our customers. Any delay in these negotiations or our inability to enter into reasonable agreements with those utilities could delay or negatively impact our ability to serve ustomers in those jurisdictions. This could have a material negative impact on our business, results of operations and financial condition.

We are dependent on local utilities for maintenance of the infrastructure through which electricity is delivered to our customers. We are mited in our ability to control the level of service the utilities provide to our customers. Any infrastructure failure that interrupts or impairs elivery of electricity to our customers could have a negative effect on the satisfaction of our customers with our service, which could have a material adverse effect on our business.

Regulations in many markets require that the services of reading our customers' energy meters and the billing and collection process be etained by the local utility. In those states, we will be required to rely on the local utility to provide us with our customers' energy usage data and to pay us for our customers' usage based on what the local utility collects from our customers. We may be limited in our ability to confirm he accuracy of the information provided by the local utility and we may not be able to control when we receive payment from the local utility. The local utility's systems and procedures may limit or slow down our ability to create a supplier relationship with our customers that would delay the timing of when we can begin to provide electricity to our new customers. If we do not receive payments from the local utility on a timely basis, our working capital may be impaired.

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some markets, we are required to bear credit risk and billing responsibility for our customers.

In some markets, we are responsible for the billing and collection functions for our customers. In these markets, we may be limited in our bility to terminate service to customers who are delinquent in payment. Even if we terminate service to customers who fail to pay their utility ill in a timely manner, we may remain liable to our suppliers of electricity for the cost of the electricity and to the local utilities for services elated to the transmission and distribution of electricity to those customers. The failure of our customers to pay their bills in a timely manner or our failure to maintain adequate billing and collection programs could materially adversely affect our business.

ur revenues and results of operations are subject to market risks that are beyond our control.

We sell electricity that we purchase from third-party power generation companies to our retail customers on a contractual basis. We are not uaranteed any rate of return through regulated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity in our regional markets. These market prices may fluctuate substantially over relatively short periods of time. These factors could have an adverse impact on our revenues and results of operations.

Volatility in market prices for electricity results from multiple factors, including:

- weather conditions, including hydrological conditions such as precipitation, snow pack and streamflow,
- seasonality,
- unexpected changes in customer usage,
- transmission or transportation constraints or inefficiencies,
- planned and unplanned plant or transmission line outages,
- demand for electricity,
- natural gas, crude oil and refined products, and coal supply availability to generators from whom we purchase electricity,
- natural disasters, wars, embargoes and other catastrophic events, and
- federal, state and foreign energy and environmental regulation and legislation.

ur results of operation and financial condition could be affected by pending and future litigation.

We are currently a defendant in several pending lawsuits. We believe our substantive and procedural defenses in each of these cases are eritorious, but we cannot predict the outcome of any such litigation. In addition, we may become subject to additional lawsuits in the future. we are held liable for significant damages in any lawsuit, our operations and financial condition may be harmed. In addition, we could incur substantial expenses in connection with any such litigation, including substantial fees for attorneys and other professional advisors. These expenses could adversely affect our operations and cash position if they are material in amount.

we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading rice of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide eliable financial reports or prevent fraud, our operating results could be harmed. We have in the past discovered, and may in the future iscover, areas of our internal controls that need improvement. For example, in our preparation for our 2004 audit, we discovered an nreconciled energy accounting issue that caused us to restate our second and third quarter reported results. Our external auditor identified this issue as a reportable

ondition and a material weakness, which means that this was an issue that in the auditor's judgment could adversely affect our ability to ecord, process, summarize and report financial data consistent with the assertions of management in the financial statements. In 2004, we devoted resources to remediate and improve our internal controls. Although we believe that these efforts have strengthened our internal controls and addressed the concerns that gave rise to the reportable condition and material weakness in 2004, we are continuing to work to mprove our internal controls, including in the area of energy accounting. We cannot be certain that these measures will ensure that we mplement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a egative effect on the trading price of our stock.

Investor confidence and share value may be adversely impacted if our independent auditors are unable to provide us with the attestation of the dequacy of our internal controls over financial reporting as of July 31, 2005, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public ompanies to include a report of management on our internal controls over financial reporting in our Annual Reports on Form 10-K that ontains an assessment by management of the effectiveness of our internal controls over financial reporting. In addition, our independent auditors must attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. This requirement will first apply to our Annual Report on Form 10-K for the fiscal year ending July 31, 2005. How companies should be mplementing these new requirements including internal control reforms, if any, to comply with Section 404's requirements, and how ndependent auditors will apply these new requirements and test companies' internal controls, are subject to uncertainty. Although we are diligently and vigorously reviewing our internal controls over financial reporting in order to ensure compliance with the new Section 404 requirements, if our independent auditors are not satisfied with our internal controls over financial reporting or the level at which these controls re documented, designed, operated or reviewed, or if the independent auditors interpret the requirements, rules or regulations differently than ve do, then they may decline to attest to management's assessment or may issue a report that is qualified. This could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could egatively impact the market price of our shares.

We have initiated a company-wide review of our internal controls over financial reporting as part of the process of preparing for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and as a complement to our existing overall program of internal controls over financial eporting. As a result of this on-going review, we have made numerous improvements to the design and effectiveness of our internal controls ver financial reporting through the period ended October 31, 2004. We anticipate that improvements will continue to be made.

tem 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes to information called for by this Item 3 from the disclosures set forth in Part II, Item 7A in the Company's Annual Report on Form 10-K for the year ended July 31, 2004, except as set forth below.

Our activities expose us to a variety of market risks including commodity prices and interest rates. Management has established risk management policies and strategies to reduce the potentially adverse effects that the price volatility of these markets may have on our operating esults. Our risk management activities, including the use of derivative instruments, are subject to the management, direction and control of an nternal risk oversight committee. We maintain commodity price risk management strategies that use derivative instruments within strict risk tolerances to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. Derivative instruments measured t fair market value are recorded on the balance sheet as an asset or liability. Changes in fair market value are recognized currently in earnings nless specific hedge accounting criteria are met.

Supplying electricity to retail customers requires us to match customers' projected demand with fixed price purchases. We primarily use orward physical energy purchases and derivative instruments to minimize significant,

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nanticipated earnings fluctuations caused by commodity price volatility. In certain markets where we operate, entering into forward fixed rice contracts may be expensive relative to derivative alternatives. Derivative instruments, primarily swaps and futures, are used to hedge the uture purchase price of electricity for the applicable forecast usage protecting us from significant price volatility. In the first fiscal quarter of 2005, certain forward fixed price purchases and swap agreements were designated as cash flow hedges resulting in changes in the hedge value eing deferred in other comprehensive income ("OCI"). To the extent that the hedges are not effective, the ineffective portion of the changes in ir market value was recorded in direct energy costs. We also entered into transactions that did not qualify as accounting hedges but were designed to take advantage of trends in wholesale power prices to reduce our direct energy costs. Some of these transactions do not qualify for hedge accounting treatment under SFAS 133. In such cases, the changes in the fair value of these transactions are recorded in earnings as a omponent of direct energy costs. We did not engage in trading activities in the wholesale energy market other than to manage our direct nergy cost in an attempt to improve the profit margin associated with our customer requirements.

The amounts recorded in OCI at October 31, 2004 related to cash flow hedges are summarized in the following table:

	July 31, 2004	Increase (Decrease) in OCI	October 31, 2004
Current assets	$ —	$1,450	$ 1,450
Other comprehensive income	$ —	$1,450	$ 1,450

As of October 31, 2004, we had 84% of our forecast energy load through December 31, 2005 covered through either fixed price power urchases with counterparties, or price protected through financial hedges.

tem 4. Controls and Procedures.

a) *Evaluation of Disclosure Controls and Procedures.*

Our Principal Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered y this report, that our disclosure controls and procedures (as defined in Rules 13(a)-15(e) under the Securities Act of 1934, as amended) are effective to ensure that all information required to be disclosed by the Company in the reports filed or submitted by it under the Securities and Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include ontrols and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Principal Executive Officer and the Chief Financial Officer, as appropriate and allow timely decisions regarding required disclosure.

b) *Changes in Internal Controls.*

In connection with the above-referenced evaluation, no change in the Company's internal control over financial reporting occurred during he period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

We are evaluating the effectiveness of our internal controls over financial reporting in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year beginning in 2005, and to include a management report assessing the effectiveness of our internal controls over financial eporting in all annual reports beginning with our Annual Report on Form 10-K for the fiscal year ending on July 31, 2005. Section 404 also equires our independent accountant to attest to, and report on, management's assessment of our internal controls over financial reporting. In evaluating our internal controls over financial reporting, we have identified a number of

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changes that need to be made to our internal controls, primarily related to better documenting the controls, and related changes to information systems used in financial reporting. We began making these changes during the second quarter of 2005. The changes we began during the second quarter of 2005 did not, individually or in the aggregate, have a material effect on our internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the Company's Report on Form 10-K for the period ended July 31, 2004 (the "10-K"), for a summary the Company's legal proceedings previously reported. Since the date of the 10-K, there have been no material developments in previously reported legal proceedings.

em 6. Exhibits.

The exhibit listed below is hereby filed with the Commission as part of this Report.

Exhibit Number	Description
10.1	Form of Non-Employee Director Stock Option Agreement for directors, previously filed with the Commission on December 8, 2004 as Exhibit 10.1 to Commerce Energy Group, Inc.'s Current Report on Form 8-K, which is incorporated herein by reference.
10.2	Commerce Energy Group, Inc. Non-Employee Director Compensation Policy, previously filed with the Commission on December 8, 2004 as Exhibit 10.2 to Commerce Energy Group, Inc.'s Current Report on Form 8-K, which is incorporated herein by reference.
10.3	Revised Security Agreement dated October 27, 2004 by and between Commonwealth Energy Corporation and DTE Energy Trading, previously filed with the Commission on November 15, 2004 as Exhibit 10.32 to Commerce Energy Group, Inc.'s Annual Report on Form 10-K, which is incorporated herein by reference.
10.4	Revised Operating Agreement dated November 15, 2004 between DTE Energy Trading, Inc. and Commonwealth Energy Corporation, previously filed with the Commission on April 5, 2004 as Exhibit 10.33 to Commerce Energy Group, Inc.'s Annual Report on Form 10-K, which is incorporated herein by reference.
31.1	Principal Executive Officer Certification required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Chief Financial Officer Certification required by Rule 13a-14(a) under of the Securities Exchange Act of 1934, as amended.
32.1	Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMERCE ENERGY GROUP, INC.

Date: December 15, 2004 By: /s/ Peter Weigand

Peter Weigand
President
(Principal Executive Officer)

Date: December 15, 2004 By: /s/ Richard L. Boughrum

Richard L. Boughrum
Senior Vice President, Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

The exhibit listed below is hereby filed with the Commission as part of this Report.

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32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1

CERTIFICATIONS

Peter Weigand, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commerce Energy Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal controls over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 15, 2004

By: /s/ PETER WEIGAND

PETER WEIGAND
President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

Richard L. Boughrum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commerce Energy Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal controls over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 15, 2004

By: /s/ RICHARD L. BOUGHRUM

RICHARD L. BOUGHRUM
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
RULE 13(a)-14(b) AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Commerce Energy Group, Inc. (the "Company") on Form 10-Q for the quarterly period ending October 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Peter Weigand, President (principal executive officer) of the Company, hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 15, 2004

By: /s/ PETER WEIGAND

PETER WEIGAND
President
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
RULE 13(a)-14(b) AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Commerce Energy Group, Inc. (the "Company") on Form 10-Q for the quarterly period ending October 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard L. Boughrum, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 15, 2004

By: /s/ RICHARD L. BOUGHRUM

RICHARD L. BOUGHRUM
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended July 31, 2004

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-32239

Commerce Energy Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-0501090**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

600 Anton Boulevard, Suite 2000, Costa Mesa California 92626
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code
(714) 259-2500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days: **Yes** ☑ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this Chapter) is not

ntained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of January 31, 2004, the last business ay of the registrant's most recently completed second fiscal quarter, cannot be determined because there was no market for the registrant's shares at that date.

As of November 11, 2004, 30,519,290 shares of the Registrant's common stock were outstanding.

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EXPLANATORY NOTE

Commerce Energy Group, Inc., a Delaware corporation (the "Registrant"), is the successor to Commonwealth Energy Corporation, a California corporation (the "Predecessor"), following consummation of a reorganization which was undertaken to effect the reorganization of the Predecessor into a Delaware holding company structure whereby the Predecessor became a wholly-owned subsidiary of the Registrant. Upon consummation of the Reorganization, the entire class of common stock, $0.001 par value per share of the Registrant became registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in accordance with Rule 12g-3(a) thereunder. The Registrant filed a registration statement with the U.S. Securities and Exchange Commission (the "Commission") with respect to its common stock and related preferred stock purchase rights under Section 12(b) of the Exchange Act on Form 8-A on July 6, 2004, and a new Exchange Act file number (File No. 001-32239) was issued, replacing the Predecessor's file number (File No. 000-33069), for use in periodic filings required under the Exchange Act and the rules and regulations thereunder.

FORWARD-LOOKING STATEMENTS

You should carefully consider the risk factors described below, as well as the other information included in this Annual Report on Form 10-K prior to making a decision to invest in our securities. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known or that we currently believe to be less significant may also adversely affect us. Unless the context requires otherwise, references to "the Company," "we," "us," and "our" refer specifically to Commerce Energy Group, Inc. and its subsidiaries.

On one or more occasions, we may make statements regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events. All statements other than statements of historical facts included in this Annual Report on Form 10-K relating to expectation of future financial performance, continued growth, changes in economic conditions or capital markets and changes in customer usage patterns and preferences, are forward-looking statements.

Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "targets," "will likely result," "will continue," "may," "could" or similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. We caution that while we make such statements in good faith and we believe such statements are based on reasonable assumptions, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our expectations will be realized.

In addition to the factors and other matters discussed under the caption "Factors That May Affect Future Results" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K, some important factors that could cause actual results or outcomes for Commerce Energy Group, Inc. or our subsidiaries to differ materially from those discussed in forward-looking statements include:

- regulatory changes in the states in which we operate that could adversely affect our operations;
- our continued ability to obtain and maintain licenses from the states in which we operate;
- the competitive restructuring of retail marketing may prevent us from selling electricity in certain states;
- our dependence upon a limited number of third parties that generate and supply us electricity;
- fluctuations in market prices for electricity;
- our dependence on the Independent System Operator in each of the states where we operate, to properly coordinate and manage their electric grids, and to accurately and timely calculate and allocate the charges to the participants for the numerous related services provided;
- our ability to obtain credit necessary to support future growth and profitability; and
- our dependence upon a limited number of local electric utilities to transmit and distribute the electricity we sell to our customers.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors.

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PART I

Item 1. ***Business.***

verview

Commerce Energy Group, Inc., ("Commerce Energy or Commerce"), is a diversified energy services company. We provide retail electric ower to our residential, commercial, industrial and institutional customers, provide consulting and technology services to energy-related usinesses and provide energy transaction data management services. Commerce Energy is a holding company that operates through its wholly-owned operating subsidiaries: Commonwealth Energy Corporation, doing business as *electricAmerica, ("electricAmerica"*, Commonwealth" or "Commonwealth Energy,") Skipping Stone Inc., ("Skipping Stone,") and UtiliHost, Inc., ("UtiliHost.")

Commerce operates through the following wholly-owned subsidiaries:

electricAmerica

electricAmerica provides electric power to our residential, commercial, industrial and institutional customers in the deregulated California, ennsylvania, Michigan and New Jersey electricity markets. Commonwealth Energy is licensed by the Federal Energy Regulatory Commission, or FERC, as a power marketer. In addition to the states in which *electricAmerica* currently operates, Commonwealth Energy is also licensed to supply retail electric power by applicable state agencies in New York, Maryland, Texas and Ohio.

Skipping Stone

Skipping Stone, which we acquired in April 2004, provides energy-related consulting services and technologies to utilities, electricity enerators, natural gas pipelines, wholesale energy merchants, energy technology providers and investment banks.

UtiliHost

UtiliHost provides managed back office services and energy transaction data management services to *electricAmerica.*

ompany History

Commerce Energy Group's predecessor, Commonwealth Energy, was formed in California in August 1997. On July 6, 2004, ommonwealth reorganized into a holding company structure, whereby Commonwealth became a wholly-owned subsidiary of Commerce Energy and the stockholders of Commonwealth became stockholders of Commerce.

As a result of the reorganization, (a) each issued and outstanding share of common stock of Commonwealth was exchanged, subject to exercise of dissenters' rights by the Commonwealth's stockholders, for a share of Common Stock, par value *$0.001* per share, of Commerce Energy ("Commerce Common Stock") and a right to purchase (each, a "Right") one one-hundredth of a share of Series A Junior Participating referred Stock, par value $0.001 per share, of Commerce ("Junior Participating Preferred") and (b) Commerce assumed the Commonwealth's 999 Equity Incentive Plan (the "Plan"), all outstanding obligations to issue common stock under the Plan and all outstanding stock options issued outside the Plan. The stockholders of Commerce hold the same relative percentage of Commerce common stock as they owned of Commonwealth common stock immediately prior to the reorganization, subject to the exercise of dissenters rights.

Immediately prior to consummation of the reorganization, Commonwealth transferred ownership of the following four subsidiaries to Commerce Energy: Skipping Stone Inc., *electricAmerica,* Inc., UtiliHost, Inc., and electric.com, Inc. As a result of the transfer, these entities ecame subsidiaries of Commerce Energy. Commonwealth also contributed its TACT (Trans-Action Control Technology) and TRIUMPH Total

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Resource Internet Utility Management Power Host) proprietary software products that we have developed to provide outsourced services to our retail customers and certain other assets related to outsourcing services to UtiliHost, a wholly-owned subsidiary of Commerce Energy.

Commerce was incorporated in the State of Delaware on December 18, 2003. Our executive offices are located at 600 Anton Boulevard, Suite 2000, Costa Mesa California 92626. Our telephone number is (714) 259-2500.

Industry Background

Beginning in 1992, the U.S. electric utility industry began a process of deregulation, which primarily served to unbundle generation, transmission, distribution and ancillary services into separate components. In 1996, some states, and some of the utilities within those states, proceeded to allow their end-use customers direct access to marketers enabling them to purchase electricity from an entity other than the host or local utility in a competitive retail market. These proceedings created a new market participant known as Electricity Service Providers, or ESPs, such as Commerce. Presently, twenty-four states and the District of Columbia have either enacted enabling legislation or issued regulatory orders to proceed with retail access.

As in other industries that have been deregulated, competition in the electric service industry is intended to provide consumers with a choice of multiple suppliers and is expected to promote product differentiation, lower costs and enhanced services. To obtain these benefits, customers in deregulated utility markets may choose to switch their electric supply service from their local utility to an alternative supplier.

The electricity distribution infrastructure in place prior to deregulation remains largely unchanged, with the primary difference being that parties other than the local utility can utilize the delivery infrastructure by paying usage fees. ESPs use this established electricity network for the delivery of energy to their customers.

Most electricity grids and wholesale market clearing activities are managed by a third party entity known as an Independent System Operator, or ISO, or regional transmission organization. The ISO is responsible for system reliability and ensures that physical electricity transactions between market participants are managed in such a way as to assure proper electricity reserve margins are in place, grid capacity is maintained, and supply and demand are in near perfect balance in real time.

Retail electric marketers procure power supplies for delivery to end-use customers from a variety of wholesale power producers or merchant generation companies, either through term bilateral contracts or on a spot basis. In addition, short term daily or hourly supply requirements can be purchased or sold though the balancing markets operated by the ISO. The physical distribution of electricity to retail customers remains the responsibility of the local utility, which collects fees for use of its systems. Some states also enable the utility to provide additional services, such as reading meters, generating customer bills, collecting bills and taking requests for service changes or problems, while in other states the utility is not allowed, or chooses not to perform these services.

Core Products and Services

Our primary business is retail sales of electricity to end-use customers under the brand name *electricAmerica* through our subsidiary Commonwealth Energy. We also provide consulting and technology professional services to utilities, electricity generators, wholesale energy merchants, and energy technology companies through our subsidiary, Skipping Stone. Additionally, our subsidiary, UtiliHost, offers energy commodity data transaction services utilizing its proprietary technologies and business processes.

We engage in one industry segment. For information regarding our sales, operating profits and assets, see the financial statements included in Part II, Item 8 of this report, "Financial Statements and Supplementary Data."

electricAmerica

We offer electric service to customers under month-to-month, one year, or longer-term service contracts. The difference between the customers' purchase price for energy and the sum of our wholesale electricity purchase costs and ancillary services costs provide us with a gross margin.

All of the power we sell to our customers is purchased from third party power generators under long-term contracts and in the spot market. We do not own electricity generation facilities with the exception of small experimental renewable energy assets. The electric power we sell to end-user customers is metered and delivered to our customers by the local incumbent electric Utility Distribution Companies, or UDCs, or local utilities. The UDCs measure electric power usage, bill and collect for their distribution charges, and bill and collect our charges for electric commodity from most of our customers on our behalf. The Company does not have open lines of credit for direct unsecured borrowings or for letters of credit. Credit terms from our suppliers of electricity often require us to post collateral to support our energy purchases and to support our mark-to-market exposure with certain of our suppliers. We currently finance these collateral obligations with our available cash. To enable load shaping and balancing for our retail customer portfolio, we also buy and sell surplus electric power from and to other market participants when necessary.

Electricity is a real-time commodity. As soon as it is produced, it must be simultaneously delivered into the grid to meet the demand of end users as it cannot be stored. We must effectively manage our purchased electricity supply and our customer demand to maintain profitability. We also manage the load shaping activity required by the variable electricity usage patterns of our retail customers; therefore, we may hold long or short energy positions. A long position occurs when we have committed to purchase more electricity than our customers need and a short position occurs when our customers' needs exceed the amount of electricity we have committed to purchase. In both situations, we utilize the wholesale electricity spot market and ISO clearing markets to sell excess energy when we are long, and buy additional electricity when we are short. It would be impossible to completely hedge every delivery hour for all customers, therefore we will always have some exposure to volatility in wholesale market electric power price movement.

Purchases and sales in the wholesale market are regulated by FERC, and we report on a regular basis to the U.S. Department of Energy. Weather, generation capacity, transmission, distribution and other market and regulatory issues also are significant factors in determining our wholesale procurement and sale strategies in each of the markets we serve.

Skipping Stone

Skipping Stone offers a number of related professional consulting services and technologies to energy companies, such as utilities, electricity generators, natural gas pipelines, wholesale energy merchants, energy technology providers and investment banks. Skipping Stone is focused on assisting clients with business process improvements, market research, training, Sarbanes-Oxley process level implementations, systems design and selection, and strategic and tactical planning for new market or merger activities. Additionally, through Skipping Stone's technology center, the Company provides natural gas pipeline information to market participants and government customers through its capacitycenter.com service.

UtiliHost

To provide managed back office services and transaction data management, we developed and offer proprietary software and service products TACT™ (Trans-Action Control Technology) and TRIUMPH™ (Total Resource Internet Utility Management Power Host). TACT™ acts as a data translator between trading partners, while TRIUMPH™ is a comprehensive, modular software package that calculates and manages back office processes such as customer enrollment, forecasting, metering, ancillary products, billing, accounts receivable, customer service and settlement. Currently, UtiliHost is providing services directly to *electricAmerica* for use in connection with *electricAmerica's* electric service business. In the future, UtiliHost also intends to offer services directly to third party customers.

Investments

We have investments in three energy technology companies: Encorp Inc. (formerly known as Envenergy, Inc.), Turbocor B.V. and Power Efficiency Corporation.

Encorp Inc., or Encorp, is a developer of software and hardware for energy and facility management that enables energy usage and cost information to be gathered and disseminated for the benefit of its customers. As of July 31, 2004, we owned approximately 2.3% of Encorp.

Turbocor B.V., or Turbocor, is a manufacturer of energy efficient compressors for commercial heating, air conditioning, and refrigeration applications. As of July 31, 2004, we owned approximately 9.3% of Turbocor.

Power Efficiency Corporation, or PEC, markets its own brand of induction motor efficiency products that enhances motor performance and reduces energy consumption. As of July 31, 2004, we owned approximately 39.9% of PEC.

These investments were originally held by Summit Energy Ventures, LLC, or Summit, which we formed in July 2001. Our initial (and only) capital contribution to Summit was $15 million. In April 2004, we reached an agreement with Summit's investment manager, Northwest Power Management, or NPM, to terminate our relationship. As a result of the transaction and after April 30, 2004, the Company no longer retained an equity interest in or contractual relationship with Summit. After May 1, 2004, we retained direct ownership in the investments in the three portfolio companies previously held by Summit. Under the terms of the termination agreement, we retained the entire interests in Encorp and Turbocor previously held by Summit, and retained a portion of the interest in PEC that was previously held by Summit and not distributed to NPM in the settlement. We will no longer consolidate the financial results of PEC in our consolidated financial statements due to the reduction in our ownership percentage as part of the termination agreement. (See Note 9 of Notes to Consolidated Financial Statements).

Growth Initiatives

We are working to broaden the scope of the energy-related products and services we provide to include natural gas, energy efficiency offerings, and additional outsourced services. Additionally, we are evaluating expansion of our core products and services into new deregulated markets and targeted customer classes. We expect to accomplish our growth objectives through a combination of organic growth initiatives, mergers and acquisitions, and joint ventures.

New Markets

Currently, we actively market electricity in six UDC markets within California, Pennsylvania, Michigan and New Jersey. There are over twenty additional potential UDC markets that are open for direct access sales to end-use customers for both electricity and natural gas. We are evaluating each market to determine which are most advantageous to enter. We are also exploring opportunities to acquire existing portfolios of customers in targeted markets.

Natural Gas

We are evaluating offering natural gas to our retail electric customers in the markets we currently serve in California, Pennsylvania, Michigan and New Jersey. All of these markets are currently open for direct access purchasing of natural gas from retail marketers. Our intent is either to develop this business organically or acquire an existing natural gas marketing business with infrastructure already in place.

Energy Efficiency

We plan to offer a variety of energy efficiency products and services to our retail customers to assist them in better managing their energy loads. These offerings may include both hardware and facility management technologies and services. Our intent is to either partner with or acquire companies who are already

established and engaged in providing energy efficiency products and services targeted to residential, commercial, industrial and institutional customers.

Outsourced Services

We began expanding our outsourced services through Commonwealth under the brand name *electricAmerica,* to target load aggregation opportunities in September 2002, enabling California cities and counties to establish Community Choice Aggregation programs. Such programs allow cities and counties to aggregate their residential, commercial, industrial and municipal electric service customers into portfolios that can be supplied electric generation from ESPs and other non-utility providers. We market services to assist cities and counties in such efforts, and intend to provide them with required energy procurement, energy management, customer service and back-office services. We also market similar services for major commercial and industrial customers to meet their electricity demand requirements. The focus of the outsourced services strategy is to both leverage our core skills and technologies, and to diversify along the energy value chain with complimentary product offerings.

Our Customers and Markets

electricAmerica

Currently, *electricAmerica* is actively selling electricity to customers in California, Pennsylvania, Michigan and New Jersey. We are also licensed to sell electricity in New York, Maryland, Texas and Ohio; however, we are not currently supplying customers in those markets. Our targeted customers include small and medium size businesses. We also serve residential customers in most markets. As of July 31, 2004, we were serving approximately 102,000 customers across all markets. We do not depend upon any one customer or a few major customers.

Skipping Stone

Skipping Stone is currently engaged by over 100 clients under master agreements, with approximately 20 active engagements in any given month. Clients include utilities, wholesale energy merchants, natural gas pipelines companies, electricity generators, energy producers, and investment companies. The majority of our clients are based in North America with international clients from Japan, Korea, India, France, Canada and the United Kingdom.

UtiliHost

Currently, UtiliHost does not have any active customers; however, there are several potential opportunities under development. We have realized significant savings by utilizing the UtiliHost technologies in our own operations, which has helped us to avoid large expenditures for third party software and services.

Electricity Supply

We maintain a balanced portfolio of long term power purchases using industry standard bilateral contracts with a variety of wholesale suppliers ranging from one to two years through May 2006. We do not own generation assets, with the exception of small experimental renewable energy assets. Additionally, we buy and sell incremental volumes of electricity in the short-term or spot wholesale markets as necessary to manage load shaping to balance our electricity supply with our customers' load requirements. We are not substantially dependent on any one supplier.

Wholesale electricity is readily available from various sources in each of the markets in which we have customers. Based upon current information from our suppliers, we do not anticipate any shortage of supply. However, in the event of a supply shortage, there can be no assurance that we would be able to timely secure an alternative supply of electricity at prices comparable to our current long-term contracts, and the failure to replace a supplier in a timely manner at comparable prices could materially harm our operations.

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We employ industry standard risk management policies and procedures to control and monitor the risks associated with volatile commodity markets and to assure a balanced portfolio within tight risk tolerances.

Sales and Marketing

We market and sell supplies of electricity to end-use customers in the states of California, Pennsylvania, Michigan and New Jersey. A variety of approaches are utilized in acquiring customers, including both inside and outside sales forces, consulting channels, web site enrollments and traditional marketing campaigns.

The vast majority of our customers are acquired through our inside sales team, or contact center, which handles inbound calls from customers and makes outbound calls to targeted customers. Our contact center is responsible for procuring orders from smaller commercial customers. All customers acquired by the contact center agree to our terms of service through a third party voice log system. This sign-up device simplifies the switching process for these customers and shortens the sales cycle.

Our outside sales team, Commercial and Industrial, or C&I Sales, is responsible for targeting medium and large commercial, industrial and institutional customers. Customers acquired by our C&I Sales enter into individualized written contracts. For this reason, the sales cycle is typically longer because the deal size is large and requires customized proposals to meet the customer's needs. C&I Sales also works with third party energy consultants who procure energy supplies on behalf of commercial and industrial customers.

We also use our *electricAmerica* website, *www.electricAmerica.com,* as a tool to help acquire customers. The website provides customers with detailed electric supply information in each territory that we serve and enables customers to complete application forms online, send us automated inquiries or helps customers find our toll-free telephone number, *1-800-ELECTRIC®.*

Traditional marketing campaigns, such as direct mail, billboards, trade show participation, and targeted market research are all designed to facilitate customer acquisition. We continually refine our marketing methodologies to target favorable customers based on changes in the electric marketplace.

Our retail energy sales depend upon our ability to identify and enter into favorable energy markets, manage the cost of customer acquisition, and to achieve sufficient customer scale to create a profitable operating cost structure. Currently, we intend to:

- Selectively enter retail energy markets that have rate structures, market rules, consumer demographics, energy consumption patterns, access to favorable electricity supply and risk management profiles that are designed to enable us to provide savings and flexibility to our customers at an acceptable margin.
- Capitalize on the brand recognition of *electricAmerica* through our web site at *www.electricAmerica.com* and through our inbound toll-free number, 1-800-ELECTRIC.
- Take advantage of the increasing consumer acceptance of online commerce, both directly through our web sites (*www.electricAmerica.com* and *www.electric.com*) and through traditional channels.
- Develop strategic marketing alliances with established power suppliers to offer competitive electric products and services to targeted markets and customers.
- Offer additional products and services to our customers, such as risk management pricing alternatives, outsourced services, consulting services, and, eventually, energy efficiency products and services.

Competition

electricAmerica

In markets that are open to competitive choice of suppliers, there are generally three types of competitors, the local utilities, retail marketers and wholesale merchants. Competition is based primarily on price and customer service.

In general, we believe our principal competitor in each market is the local utility or unregulated utility affiliate, primarily because the local utilities are usually already serving the customer. Increasing our market

share depends on our ability to convince customers to switch to our service. The local utilities have the advantage of long-standing relationships with their customers and they have longer operating histories, greater financial and other resources and greater name recognition in their markets than we do. In addition, local utilities have been subject to many years of regulatory oversight and thus have a significant amount of experience regarding the regulators' policy preferences as well as a critical economic interest in the outcome of proceedings concerning their revenues and terms and conditions of service. Local utilities may seek to decrease their tariffed retail rates to limit or to preclude the opportunities for competitive energy suppliers and otherwise seek to establish rates, terms and conditions to the disadvantage of competitive energy suppliers. There is an emerging trend among some local utilities to exit the power merchant function and actively encourage customers to leave their energy supply service. This is sometimes encouraged by the framework for deregulation within which the local utility operates. Recently, there have been several customer auctions held in which the local utility assigns its customers to winning retail marketer bidders. We have been successful in the customer auction process and plan to pursue more of these opportunities as they become available.

Among the retail marketers and wholesale merchants, competition is most intense for the larger volume customers, such as large commercial and industrial accounts. Our target customers are the medium and smaller businesses, in which we rarely experience competition from the wholesale merchants, and in most markets, there are typically only two or three other retail marketers actively targeting the same accounts.

Most customers who switch from the local utility do so for an economic benefit. Once switched, customer retention is based on continuing competitive pricing, reliability of supply and customer service. Our customer service record has enabled us to maintain a high customer retention rate.

Some of our competitors, including local utilities, have formed alliances and joint ventures in order to compete in the restructured retail electricity industry. Many customers of these local utilities may decide to stay with their long-time energy provider if they have been satisfied with their service in the past. Therefore, it may be difficult for us to compete against local utilities and their affiliates for customers who are satisfied with their historical utility provider.

In addition to competition from the local utilities and their affiliates, we may face competition from a number of other energy service providers, and other energy industry participants who may develop businesses that will compete with us in both local and national markets. We also may face competition from other nationally branded providers of consumer products and services. Some of these competitors or potential competitors may be larger and better capitalized than us.

Skipping Stone

We face competition in selling consulting and outsourced services from a large variety of companies. These competitors may be engaged in the energy business, as we are, or from national and international management and information technologies firms.

Seasonality

Our revenues are subject to fluctuations during the year; primarily due to the impact certain seasonal factors have on sales volumes and the wholesale prices of electricity. Electricity sales volumes are historically higher in the summer months for cooling purposes, followed by the winter months for heating and lighting purposes. Typically, fall and spring months volumes are modest due to the reduced demand for cooling or heating.

Governmental Regulation

In states that have adopted deregulation, state public utility commissions, or PUCs, have authority to license and regulate certain of the activities of electric supply retailers. We are subject to regulation by the PUC in each state in which we sell of electric power. The requirements for licensing and the level of regulation vary from state to state. We are currently licensed by the applicable PUCs in California, Pennsylvania,

Michigan, New Jersey, New York, Maryland, Texas and Ohio. These licenses permit us to sell electrical power to commercial, industrial, institutional and residential customers.

We are subject to regulation by various federal, state and local governmental agencies. Our wholesale purchases and sales are subject to the jurisdiction of the FERC under the Federal Power Act. We make wholesale sales of electricity pursuant to a Power Marketer certificate issued by FERC. While FERC does not generally regulate the rates, terms or conditions of these electricity sales, FERC has the authority to institute proceedings to identify transactions involving rates that are not just and reasonable due to market manipulation and to reverse or unwind such transactions to ensure just and reasonable rates.

On September 20, 2001, the California PUC issued a ruling suspending direct access. Direct access refers to the right of retail electricity suppliers like us to actively seek new customers in California from the local utilities. This ruling permits retail electricity suppliers to keep their current customers and to solicit direct access customers served by other providers, but prohibits us from signing up new non-direct access customers in California for an undetermined period of time.

Employees

As of July 31, 2004, we employed approximately 173 full-time and 2 part-time employees, including: 32 in administration, 16 in marketing and sales, and 127 in operations. None of our employees are covered by a collective bargaining agreement or are presently represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good.

Intellectual Property

Intellectual property assets include our proprietary software and service products (TACT and TRIUMPH), our 1-800-Electric telephone number and rights to our internet domain names (*electric.com* and *electricAmerica.com*). Also in fiscal 2004, we acquired Skipping Stone's customer list, software and website. We believe that each of our intellectual property assets offer us strategic advantages in our operations. Their useful lives range from two to 20 years.

Our strategy for protection of our trademarks is to routinely file U.S. federal and foreign trademark applications for the various word names and logos used to market our technology solutions to licensees and the general public. The duration of the U.S. and foreign registered trademarks can typically be maintained indefinitely, provided proper fees are paid and trademarks are continually used or licensed by us.

Item 1A. ***Executive Officers of the Registrant.***

Information About Our Executive Officers

The following table sets forth information regarding our executive officers, including their respective business experience during the last five years and age as of October 22, 2004. Executive officers are elected by, and serve at the pleasure of, the Board of Directors.

On November 11, 2004, a Special Committee of the Board of Directors of Commerce placed Mr. Carter, Chairman of the Board and Chief Executive Officer of Commerce and Commonwealth, on paid administrative leave, which will continue for an indefinite period not to exceed the remainder of the term of Mr. Carter's employment agreement ending on January 31, 2005. Peter Weigand, President of Commerce and Commonwealth, will assume the duties of the principal executive officer of Commerce and its affiliated entities until the Board of Directors appoints a successor to Mr. Carter, subject to certain limitations imposed by the Special Committee of the Board of Directors. As part of these duties, Mr. Weigand will act as the "principal executive officer" of Commerce for purposes of all filings with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

Name and Position	Age	Principal Occupation and Other Information
Ian B. Carter *Chairman, Chief Executive Officer*	66	Mr. Carter has been Chairman of the Board of Directors and Chief Executive Officer of Commerce since December 2003. He has served as Chairman and Chief Executive Officer of Commonwealth since January 2000, and was Commonwealth's President from March 2003 to March 2004. During the preceding four month period prior to January 2000, he acted as Commonwealth's Interim President. From October 1988 to August 1999, Mr. Carter operated his own businesses, including a mortgage banking firm and a merchant banking firm. Prior to that, Mr. Carter served as an investment specialist for Coldwell Banker Commercial Brokerage and worked as a Systems Engineer and Salesman with IBM. Mr. Carter also served in the United States Army serving in Vietnam, Europe and the Pentagon. Mr. Carter received his Bachelor of Science degree in Engineering from the United States Military Academy at West Point, New York, and his Masters in Business Administration in finance from the University of Southern California.
Peter Weigand *President*	47	Mr. Weigand became President of Commerce and Commonwealth in April 2004. He has also served on Commerce's Board of Directors since April 2004. Since 1996, Mr. Weigand served as Chairman and Chief Executive Officer of Skipping Stone, an energy consulting and technology firm he founded. Prior to forming Skipping Stone, Mr. Weigand held senior management positions at several energy marketing companies. Mr. Weigand holds a Bachelor of Business Administration from Wichita State University.
Richard L. Boughrum *Senior Vice President, Chief Financial Officer*	54	Mr. Boughrum became Senior Vice President, Chief Financial Officer of Commerce and Commonwealth in April 2004. From January 2004 to April 2004, Mr. Boughrum served as an independent contractor with Skipping Stone. From April 1990 to November 2003, Mr. Boughrum was an investment banker with Goldman Sachs & Co. in New York. Mr. Boughrum is an honors graduate of the University of Illinois with a Bachelor of Science degree in Journalism. He also has a Masters of Science degree in Communications and a Masters in Business Administration in Finance from the University of Illinois.
John A. Barthrop *Senior Vice President, General Counsel and Secretary*	62	Mr. Barthrop has been a Senior Vice President, General Counsel and Secretary of Commerce since April 2004. Mr. Barthrop has served as General Counsel and Secretary of Commonwealth since May 1999. From August 1998 to May 1999, Mr. Barthrop practiced law with the firm of Eadington, Merhab & Eadington. From July 1996 to August 1998, he was a principal member of the business and litigation law firm of Smith, Sinek & Barthrop. Mr. Barthrop was an adjunct professor at Whittier College of Law. Mr. Barthrop obtained a Bachelor of Science degree from the University of Washington, and a Juris Doctorate degree from University of California, Hastings College of Law.

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Item 2. *Properties.*

Our principal executive office is located in Costa Mesa, California. This facility houses our administration and operations. We lease approximately 38,677 square feet of office space at these premises pursuant to a sub-lease that expires on September 6, 2009.

We also lease approximately 2,265 square feet of additional office space in Cherry Hill, New Jersey under a lease that expires in August 2005.

In addition to the Commerce offices, Skipping Stone has offices in Boston, Massachusetts and Houston, Texas. The Boston office consists of approximately 4,200 square feet under a lease that expires in June 2005, and the Houston office consists of approximately 5,600 square feet under a lease that expires in February 2007.

We believe that our leased property is in good condition, is well maintained and is adequate for our current and immediately foreseeable operating needs.

Item 3. *Legal Proceedings.*

On January 15, 2003, we filed a complaint in the United States District Court for the Central District of California entitled Commonwealth Energy Corporation v. Wayne Mosley, et al. (Case number CV03-00402-NM (RNBx)) against several dissident stockholders who we believed had illegally solicited proxies in connection with the annual meeting of stockholders on January 21, 2003. On February 6, 2003, we filed an amended complaint in this lawsuit asking the court to confirm that the Board of Directors had been legally elected by the stockholders and validating the inspector's determination at the annual meeting that the proxy materials sent by defendants had violated several Securities and Exchange Commission rules and regulations and that the resulting proxies were invalid. On June 10, 2003, the court issued a default judgment against certain defendants, finding (a) we properly conducted the election at our annual meeting and the inspectors of election were correct in rejecting the proxies solicited by the group; (b) the inspectors of election counted the votes and proxies properly (and thus the elections results were validated); and (c) the challenged proxies violated Securities and Exchange Act Section 14(a) and Securities and Exchange Commission Rules 14a-4 and 14a-9, and were therefore invalid. Three members of the group, and all persons acting in concert with them, were ordered by the court to comply with all federal securities laws and Securities and Exchange Commission rules in any future attempts to solicit proxies. However, two additional defendants, who were not subject to the court's earlier ruling, brought a counterclaim against us on November 14, 2003 alleging that our Board of Directors was not properly elected at the annual meeting. This action is currently pending and seeks an order voiding the results of the Board of Directors election at the 2003 annual meeting and compelling us to seat certain other persons whom they allege should have been elected to the Board. No damages are currently being sought by plaintiffs in this case. Commonwealth intends to defend these counter-claims vigorously.

On February 14, 2003, we filed a complaint in the Orange County Superior Court against Joseph Ogundiji (Case number 03C03049) seeking a judicial declaration recognizing as invalid 80,000 shares of our capital stock that Mr. Ogundiji claims to hold. On April 11, 2003, Mr. Ogundiji filed and served an answer and cross-complaint alleging claims against us for breach of contract, conversion, declaratory relief, promissory estoppel, unlawful denial of voting rights pursuant to California Corporations Code Section 709, illegal stock dividends in violation of California Corporations Code Section 25120 and unjust enrichment. The cross-complaint seeks an unspecified amount of general and punitive damages. *This matter is scheduled for trial on June 20, 2005.*

On November 20, 2003, we filed a Notice of Appeal in the California Court of Appeal's Fourth Appellate District, Division Three, from a court order dated September 24, 2003 in Saline v. Commonwealth Energy Corp. (Orange County Superior Court case number 01CC13887). The appealed order was entered after the first of two trial phases and requires Commonwealth to recognize the shares of "other convertible preferred stock" held by plaintiff, Joseph Saline, a former director, as valid. A second phase of the trial is scheduled for January 18, 2005, Commonwealth recently prevailed on its motion for summary adjudication of Mr. Saline's

nversion claim, so only a breach of contract claim remains for trial. Another case brought by Mr. Saline, Saline v. Commonwealth Energy orporation (Orange County Superior Court case number 01CC10657) has been consolidated with this case for trial on January 18, 2005. The remaining claims in the second case are allegations by Commonwealth and/or certain intervenor plaintiffs that Mr. Saline breached his fiduciary duties as a director, libeled the Company, and illegally tape recorded certain board meetings. In this second case, Mr. Saline has ppealed the trial court's denial of his motion to strike the libel claims and refusal to award him attorney's fees related to his original claim oncerning his access to corporate documents.

On November 25, 2003, several stockholders filed a lawsuit against us in the United States District Court for the Central District of alifornia entitled Coltrain, et al. v. Commonwealth Energy Corporation, et al. (Case number CV03-8560-FMC (RNBx)). The complaint purports to be a class action against us for violations of section 709 of the California Corporations Code. The plaintiffs allege that we failed to orrectly count approximately 39,869,704 votes cast at the 2003 annual meeting and, as a result, the Board of Directors was not properly ected. Instead, the plaintiffs allege that four different persons would have been seated on the Board had the votes been tabulated in the anner advocated by the plaintiffs. This case involves identical issues of law and fact as the counterclaim discussed above in Commonwealth Energy Corporation v. Wayne Moseley, et al. and is currently pending. Commonwealth recently settled with one of the plaintiffs in this case, oltrain. Commonwealth is vigorously defending this action.

On April 19, 2004, Mr. Saline and Mr. Ogundiji filed an action in California Superior Court for Orange County (Case No. 04CC05038), leging that Commonwealth Energy Corporation's Board of Directors (other than Mr. Saline) breached their fiduciary duties and breached the ovenant of good faith and fair dealing by approving and putting to a stockholder vote the recent reorganization plan, which resulted in Commonwealth becoming a wholly-owned subsidiary of Commerce Energy Group, Inc. In addition, they allege that Commonwealth improperly failed to hold an annual meeting within the time limits set by California Corporations Code Section 600, improperly used the organization to alter their rights as preferred stockholders, and improperly refused to hold a vote just among preferred stockholders regarding e reorganization. Up to this point in the litigation, Mr. Saline and Mr. Ogundiji have attempted to block the special meeting at which the reorganization was approved, to enjoin the reorganization, to unwind the reorganization and to de-list the shares of common stock of Commerce listed on the AMEX but were not successful. Because our directors are defendants in this case, pursuant to the terms of the ndemnification agreements between Commonwealth and its directors, we are required to indemnify the directors to the fullest extent allowed y law. The indemnification agreement covers any expenses and/or liabilities reasonably incurred in connection with the investigation, defense, settlement or appeal of legal proceedings. The obligation to provide indemnification does not apply if the officer or director is found to be iable for fraudulent or criminal conduct. Pursuant to the indemnification agreement, we are currently providing a joint defense with the irectors in this action. This matter is scheduled for trial in September 12, 2005 and Commonwealth will defend vigorously.

We are currently, and from time to time may become, involved in other litigation concerning claims arising out of our operations in the ormal course of business. While we cannot predict the ultimate outcome of our pending matters or how they will affect our results of perations or financial position, management currently does not expect any of the legal proceedings to which we are currently a party, including the legal proceedings described above, individually or in the aggregate, to have a material adverse effect on our results of operations r financial position.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

A special meeting of stockholders of Commonwealth Energy was held on May 20, 2004 for the purpose of (a) voting on a proposal, which we refer to as the "reorganization proposal," to approve the Agreement and Plan of Reorganization by and among Commerce Energy Group, Inc., a wholly-owned subsidiary of Commerce Energy Group, Inc. and Commonwealth Energy Corporation and the merger provided thereby of ommonwealth Energy Corporation with a wholly-owned subsidiary of Commerce Energy Group, Inc., with Commonwealth Energy orporation surviving as a wholly-owned subsidiary of Commerce Energy Group,

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Inc., and (b) voting on a proposal to grant discretionary authority to adjourn or postpone the special meeting for the purpose of soliciting additional proxies.

The reorganization proposal and the proposal to grant discretionary authority to adjourn or postpone the special meeting for the purpose of soliciting additional proxies were approved at the special meeting. The complete results of the voting at the special meeting has been previously reported in Commonwealth's Quarterly Report on Form 10-Q for the Quarterly Period Ended April 30, 2004, filed with the Securities and Exchange Commission on June 14, 2004.

On July 6, 2004, the holders of 411,000 shares of Commonwealth's 609,000 outstanding shares of Series A Preferred Stock consented in writing to the conversion of their preferred shares into Commonwealth common stock prior to consummation of the reorganization. Pursuant to the Certificate of Designation for Commonwealth's Series A Preferred Stock, upon the consent of holders of at least 66 2/3% of the Series A Preferred Stock to convert their shares, 100% of the shares of Commonwealth Series A Preferred Stock were converted into shares of Commonwealth common stock.

On July 1, 2004, Commonwealth, as the sole stockholder of Commerce prior to the reorganization, approved the following by unanimous written consent: (a) the reorganization proposal; (b) the amendment and restatement of Commerce's Certificate of Incorporation; (c) the amendment and restatement of Commerce's bylaws; and (d) indemnification agreements for Commerce's officers and directors.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market Information

On July 8, 2004, Commerce's common stock began trading on the American Stock Exchange under the symbol "EGR." The following table sets forth, the high and low sales price per share of common stock for the periods indicated, as reported on the American Stock Exchange:

Fiscal Year Ended July 31, 2004	High	Low
Fourth Quarter (beginning July 8, 2004)	$3.49	$1.25
Fiscal Year Ending July 31, 2005	**High**	**Low**
First Quarter	$2.00	$1.20

As of November 11, 2004, the last reported sales price on the American Stock Exchange for Commerce's common stock was $1.05 per share.

Prior to July 8, 2004, there was no established public trading market for any class of Commerce Energy's or Commonwealth's equity securities.

Holders

As of November 11, 2004, there were 2,419 holders of record of Commerce's common stock.

Dividend Policy

We have not declared or paid a cash dividend on our common stock, and we do not anticipate paying any cash dividend for the foreseeable future. We presently intend to retain earnings to finance future operations, expansion and capital investment.

Prior to July 2004, Commonwealth's Series A convertible preferred stock provided for cumulative dividends that accrued at a rate of 10% per annum. During fiscal 2003 and fiscal 2004, Commonwealth declared and paid cash dividends of $92,100 and $107,568, respectively, on Commonwealth's Series A convertible preferred stock. As of July 31, 2003, accrued cumulative unpaid dividends on our Series A convertible preferred stock were $90,548. On July 6, 2004, immediately prior to the reorganization, all 609,000 outstanding shares of Commonwealth's Series A convertible preferred stock were converted to Commonwealth common stock by a vote of Commonwealth's Series A convertible preferred stockholders. Accordingly, as of July 31, 2004, there were no shares of Commonwealth's Series A convertible preferred stock outstanding, and no accrued dividends on shares of Series A convertible preferred stock.

Prior to July 2004, Commonwealth recognized 392,000 shares of Other convertible preferred stock that accrued interest at rates of 12% to 14% per annum. The validity of these shares of preferred stock is the subject of pending litigation. See "Item 3. Legal Proceedings." During fiscal 2003, Commonwealth did not declare or pay cash dividends on the Other convertible preferred stock. In fiscal 2004, Commonwealth declared and paid cash dividends of $73,507 on Commonwealth's Other convertible preferred stock. Prior to the reorganization in July 2004, all of the shares Commonwealth's Other convertible preferred stock were converted to Commerce common stock at the election of the Other convertible preferred stockholders. Accordingly, as of July 31, 2004, there were no shares of Commonwealth's Other convertible preferred stock outstanding or accrued dividends on shares of Other convertible preferred stock.

Equity Compensation Plan Information

Information concerning securities authorized for issuance under our equity compensation plans is set forth in "Item 12. Security Ownership of Certain Beneficial Owners and Management — Equity Compensation Plan Information," and that information is incorporated herein by reference.

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Recent Sales of Unregistered Securities

In March 2004, Commonwealth sold 100,000 shares of common stock to Ian B. Carter, the Company's Chief Executive Officer, in a private placement pursuant to the exercise of a stock option agreement. The transaction was exempt under Section 4(2) of the Securities Act of 1933 as one not involving any public offering.

On July 6, 2004, Commonwealth issued 1,393,000 shares of common stock to the former holders of Commonwealth's Series A convertible preferred stock and Other convertible preferred stock upon conversion of the Series A and Other convertible preferred stock in accordance with their respective terms. The transactions were exempt under Section 3(a)(9) of the Securities Act of 1933 as an exchange of securities with existing security holders. No commission or other remuneration was paid or given directly or indirectly for soliciting the exchange.

Issuer Purchases of Equity Securities

The following table details our common stock repurchases for the three months ended July 31, 2004:

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
May 1 — 31, 2004	—	—	—	—
June 1 — 30, 2004	—	—	—	—
July 1 — 31, 2004	603,697(1)	$1.92	—	—

(1) Represents shares repurchased from former stockholders of Commonwealth, pursuant to the exercise of dissenter's rights in connection with the Company's reorganization in July 2004.

Item 6. *Selected Financial Data.*

The selected financial data in the following tables sets forth (a) balance sheet data as of July 31, 2003 and 2004, and statement of operations data for the fiscal years ended July 31, 2002, 2003 and 2004 derived from our consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm, which are included elsewhere in this filing, and (b) balance sheet data as of July 31, 2000, 2001 and 2002, and statements of operations data for the fiscal years ended July 31, 2000 and 2001, derived from our consolidated financial statements audited by Ernst & Young LLP, which are not included in this filing. The information below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this filing.

	Fiscal Year Ended July 31,				
	2000	2001	2002	2003	2004
	(Amounts in thousands except per share information)				
Consolidated Statement of Operations Data:					
Net revenue	$99,624	$183,264	$117,768	$165,526	$210,623
Direct energy costs	86,732	77,281	87,340	128,179	191,180
Gross profit	12,892	105,983	30,428	37,347	19,443
Operating expenses(1)	21,921	24,919	20,247	22,732	33,313
Income (loss) from operations	(9,029)	81,064	10,181	14,615	(13,870)
Initial formation litigation expenses	(116)	(276)	(1,671)	(4,415)	(1,562)
Provision for impairment on investments	—	—	—	—	(7,135)
Loss on termination of Summit	—	—	—	—	(1,904)
Loss on equity investments	—	—	(160)	(567)	—
Minority interest share of loss	—	—	—	187	1,185
Interest income, net	499	1,593	939	715	549
Income (loss) before provision for (benefit from) income taxes	(8,646)	82,381	9,289	10,535	(22,737)
Provision for (benefit from) income taxes	—	21,852	4,125	5,113	(1,017)
Net income (loss)	$ (8,646)	$ 60,529	$ 5,164	$ 5,422	$ (21,720)
Earnings (loss) per common share					
Basic	$ (0.30)	$ 2.06	$ 0.19	$ 0.19	$ (0.77)
Diluted	$ (0.30)	$ 1.77	$ 0.16	$ 0.18	$ (0.77)
Weighted-average shares outstanding:					
Basic	28,795	29,385	27,482	27,424	28,338
Diluted	28,795	34,152	31,536	30,236	28,338

	2000	2001	2002	2003	2004
Consolidated Balance Sheet Data:					
Working capital	$12,803	$ 50,184	$ 58,841	$ 56,411	$ 58,105
Total assets	35,444	107,016	101,229	125,870	110,823
Stockholders' equity	24,236	86,037	87,952	93,017	74,106

(1) Includes stock-based compensation charges (reversals) of $445, $1,080, $(743), $0 and $636 in the fiscal years ended July 31, 2000, 2001, 2002, 2003 and 2004, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Results of Operations" and Note 2 of the Notes to Consolidated Financial Statements.

em 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operation.***

We are a diversified energy services company. We provide electric power to our residential, commercial, industrial and institutional stomers in the deregulated California, Pennsylvania, Michigan and New Jersey electricity markets under the brand name *electricAmerica.* We are licensed by the Federal Energy Regulatory Commission, or FERC, as a power marketer. In addition to the states in which we currently operate, we are also licensed to supply retail electric power by applicable state agencies in New York, Maryland, Texas and Ohio.

As of July 31, 2004, we delivered electricity to approximately 102,000 customers in California, Pennsylvania, Michigan and New Jersey. The growth of our business depends upon the degree of deregulation in each state, the availability of energy at competitive prices and credit rms, and our ability to acquire retail or commercial customers.

Our core business is the retail sale of electricity to end-use customers. All of the power we sell to our customers is purchased from third arty power generators under long-term contracts and in the spot market. We do not own electricity generation facilities, with the exception of mall experimental renewable energy assets. The electric power we sell is generally metered and delivered to our customers by the local ncumbent electric distribution utilities, or local utilities. The local utilities also provide billing and collection services for most of our customers on our behalf. To enable load shaping and balancing for our retail customer portfolio, we also buy and sell surplus electric power om and to other market participants when necessary.

On April 1, 2004, we acquired Skipping Stone, Inc., or Skipping Stone, an energy consulting and technology firm. The aggregate purchase rice for all of the outstanding Skipping Stone securities, which consists of common stock and vested options, was $3.1 million and the ssumption of $0.6 million of debt, subject to limited restrictions and true-up provisions. The purchase price was paid through the issuance of Commonwealth common stock, which was valued at $1.92 per share. Skipping Stone's revenue and operating results were less then 1% of our consolidated totals for the four months since its acquisition.

On April 30, 2004, we reached an agreement with our investment manager, Northwest Power Management, or NPM, to terminate our relationship with Summit Energy Ventures, LLC, or Summit. As a result of the transaction, we no longer retain an equity interest or contractual lationship with Summit, and we retain and directly own investments in the three portfolio companies previously held by Summit. Under the rms of the agreement, we retain the entire interest in Encorp, Inc., or Encorp, and Turbocor B.V., or Turbocor, previously held by Summit, and we retain a portion of the interest in Power Efficiency, or PEC, that was previously held by Summit and not distributed to NPM in the settlement. We no longer consolidate the financial results of PEC in our consolidated financial statements due to a reduction in our ownership rcentage to approximately 40%.

Market and Regulatory

California

The 1996 California Assembly Bill, or AB, 1890 codified the restructuring of the California electric industry and provided for the right of irect access, or DA. DA allowed electricity customers to buy their power from a supplier other than the electric distribution utilities beginning January 1, 1998. On April 1, 1998, we began supplying customers in California with electricity as an Electric Service Provider, or ESP.

The California Public Utility Commission, or CPUC, issued a ruling on September 20, 2001 suspending direct access. The suspension permitted us to keep current customers and to solicit DA customers served by other providers, but prohibited us from soliciting new non-DA customers for an indefinite period of time.

In July 2002, the CPUC authorized Southern California Edison, or SCE, to implement a Historical Procurement Charge, or HPC, to repay debt incurred during the energy crisis. This amount is currently being collected by SCE as a $0.01 per kilowatt-hour, or kWh, surcharge on the tail electricity bill paid by our customers. SCE estimates that full payment could be achieved as soon as early 2006. While HPC does not

directly impact our rate design or revenue, it may affect our ability to retain existing customers or compete for new customers.

Senate Bill 1078, signed by the governor on September 12, 2002, established a Renewable Portfolio Standard program that requires retail sellers of electricity to increase the renewable energy content of their electricity deliveries, from sources such as small hydro, biomass, geothermal resources, and municipal solid waste conversion technologies. Retail sellers must meet a target of 20 percent renewable content in their electricity portfolio by December 31, 2017. Due to the slow ramp-up of this program, additional costs to us are not expected to be significant in the near future.

Effective January 1, 2003, the CPUC authorized the electric distribution utilities to charge certain DA customers a surcharge to cover state power contract costs. The Direct Access Customer Responsibility Surcharge, or DA CRS, is currently fixed at $0.027 per kWh. DA CRS is only assessed to those DA customers who enrolled in DA on or after February 1, 2001. In the SCE service territory, the $0.027 DA CRS includes the $0.01 HPC. Those customers enrolled in DA prior to February 1, 2001, in the SCE service territory continue to pay only the $0.01 HPC. While this charge does not directly impact our rate design or revenue, it may affect our ability to retain existing customers or compete for new customers.

In December 2003, Pacific Gas and Electric, or PG&E, and the CPUC reached a settlement in the PG&E bankruptcy. In February 2004, the CPUC approved a rate settlement agreement, which reduced overall customer rates in the PG&E service territory. DA bills have generally declined in the PG&E service territory and the lower rates have affected our revenue and profitability.

Currently, four important issues are under review at the CPUC, a Resource Adequacy Requirement, a Renewable Portfolio Standard, Utilities Long Term Procurement Plans and the General Rate Cases of the electric distribution utilities. Additional costs to serve customers in California are anticipated from these proceedings, however, the CPUC decisions will determine the distribution of those costs across all load serving entities and ultimately the financial impact on us.

In September 2004, AB 2006, which would have impacted DA, was vetoed by the governor. There are no economic impacts to our financial results as a result of that veto.

Pennsylvania

In 1996, the Electricity Generation Customer Choice and Competition Act was passed. The law allowed electric customers to choose among competitive power suppliers beginning with one third of the State's consumers by January 1999, two thirds by January 2000, and all consumers by January 2001. We began serving customers in the Pennsylvania territory in 1999. There are no current rate cases or filings regarding this territory that are anticipated to impact our financial results.

Michigan

The Michigan state legislature passed two acts, the Customer Choice Act and Electricity Reliability Act, signed into law on June 3, 2000. Open access, or Choice, became available to all customers of Michigan electric distribution utilities, beginning January 1, 2002. We began marketing in Michigan's Detroit Edison, or DTE, service territory in September 2002.

In February 2004, the Michigan Public Service Commission, or MPSC, issued an interim order granting partial but immediate rate relief to DTE, our primary electric distribution utility market in Michigan. The order significantly reduced the savings of commercial customers who choose an alternative electric supplier, such as us. These changes have adversely affected our ability to retain some of our existing customers and obtain new customers, primarily among larger commercial customers.

The Michigan Senate has energy restructuring language before it in various bills, supported by the electric distribution utilities, which could negatively impact competition in the Michigan electric market. The proposed changes to the Choice market in Michigan would place additional costs and burdens on competitive electricity suppliers, diminish incentives for customers to switch from the electric distribution utilities, and

mandate transition charges for Choice customers. If these bills pass as currently drafted, they may impact our costs and prospects in the Michigan market.

New Jersey

Deregulation activities began in New Jersey in November 1999 when the Board of Public Utilities approved the implementation plan. We began marketing in New Jersey in the Public Service Electric and Gas service territory in December 2003.

The Basic Generation Service is the comparable utility price for small and large commercial accounts and includes a reconciliation charge which can change on a monthly basis. Reconciliation charge fluctuations can affect our ability to remain competitive against the comparable utility pricing.

Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and operating results are based on our consolidated financial statements. The preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in our notes to the consolidated financial statements. The accounting policies discussed below are those that we consider to be critical to an understanding of our financial statements because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on our financial results. For all of these policies, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

- *Normal purchases and sales accounting* — In fiscal 2004, we purchased substantially all of our power under long-term forward physical delivery contracts for supply to our retail electricity customers under long–term and full requirements sales contracts. We apply the normal purchase, normal sale accounting treatment to our forward purchase supply contracts and our customer sales contracts. Accordingly, we record revenue generated from our sales contracts as energy is delivered to our retail customers, and direct energy costs are recorded when the energy under our long-term forward physical delivery contracts is delivered. During fiscal 2004, we also used financial hedging, or derivative instruments, to hedge our commodity risks to a limited degree. At July 31, 2004, we had no positions in derivative instruments, however, we intend to use derivative instruments in the future as an efficient way of assisting in managing our price and volume risk in energy supply procurement for our retail customers. Some derivative instruments may not qualify as normal purchases and sales and may require mark-to-market accounting and the application of the Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standard No. 133, or SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" in future periods.

- *Independent system operator costs* — Included in direct energy costs, along with electric power that we purchase, are scheduling coordination costs and other independent system operator, or ISO, fees and charges. The actual ISO costs are not finalized until a settlement process by the ISO is performed for each day's activities for all grid participants. Prior to the completion of settlements (which may take from one to several months), we estimate these costs based on historical trends and preliminary settlement information. The historical trends, current activity levels and preliminary information may differ from actual fees resulting in the need to adjust the previously estimated costs.

- *Allowance for doubtful accounts* — We maintain allowances for doubtful accounts for estimated losses resulting from non-payment of customer billings. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- *Unbilled receivables* — Our customers are billed monthly at various dates throughout the month. Unbilled receivables represent the amount of electric power delivered to a customer at the end of a reporting period, but not yet billed. Unbilled receivables from sales are estimated by us to be the number of kilowatt-hours delivered, but not yet billed, multiplied by the current customer average sales price per kilowatt-hour.

- *Legal matters* — From time to time, we may be involved in litigation matters. We regularly evaluate our exposure to threatened or pending litigation and other business contingencies and accrue for estimated losses on such matters in accordance with Statements of Financial Accounting Standards No. 5, "Accounting for Contingencies." As additional information about current or future litigation or other contingencies becomes available, management will assess whether such information warrants the recording of additional expense relating to our contingencies. Such additional expense could potentially have a material adverse impact on our results of operations and financial position.

Results of Operations

The following table summarizes the results of our operations (dollars in thousands):

	Fiscal Year Ended July 31,					
	2002		2003		2004	
	Dollars	% Revenue	Dollars	% Revenue	Dollars	% Revenue
Retail energy sales	$ 96,960	82%	$153,430	93%	$205,028	97%
Excess energy sales	18,757	16%	6,496	4%	5,595	3%
Green power credits	2,051	2%	5,600	3%	—	—
Net revenue	117,768	100%	165,526	100%	210,623	100%
Direct energy costs	87,340	74%	128,179	77%	191,180	91%
Gross profit	30,428	26%	37,347	23%	19,443	9%
Selling, general and administrative expenses	20,247	17%	22,732	14%	29,920	14%
Reorganization and initial public listing expenses	—	—	—	—	3,393	2%
Income (loss) from operations	$ 10,181	9%	$ 14,615	9%	$ (13,870)	-7%

In the following comparative analysis, all percentages are calculated based on dollars in thousands.

Fiscal Year Ended July 31, 2004 Compared to Fiscal Year Ended July 31, 2003

Net revenue for fiscal 2004 was $210.6 million, an increase of $45.1 million, or 27%, from $165.5 million in fiscal 2003. Gross profit of $19.4 million for fiscal 2004 declined $17.9 million, or 48%, from $37.3 million in fiscal 2003.

Our operating results for the year ended July 31, 2004 included a loss from operations of $13.9 million compared to income from operations of $14.6 million for the year ended July 31, 2003. The operating loss in fiscal 2004 was primarily due to the higher cost of electricity per kWh. The higher cost of electricity per kWh has been primarily caused by the substantial increase in natural gas prices, which is a significant influencing factor on electricity prices in the wholesale markets nationally. The higher costs related to serving our customers led to some customer attrition in California and Pennsylvania in the latter part of the fiscal year. Also, in California, demand was less than forecast and as a result, we sold our excess energy at lower prices then we paid, reducing gross margins.

Net loss for fiscal 2004 was $21.7 million compared to net income of $5.4 million in fiscal 2003. In addition, to the above reasons, in fiscal 2004, we recorded a provision for impairment on investments of $7.1 million for investments previously held by Summit and subsequently, a loss of $1.9 million on the termination of the Summit venture.

Net Revenue

The increase of $45.1 million in net revenue compared to the prior fiscal year resulted primarily from increased energy sales of $27.6 million in Pennsylvania, primarily due to increasing our customer base early in the fiscal year, and $25.4 million in Michigan due to increasing our customer sales base in fiscal 2004; and a $1.0 million increase due to entering the New Jersey market in fiscal 2004; offset by a decrease of $9.9 million in energy sales in California, primarily due to the price per kWh decline in fiscal 2004 and the absence of green power credits in fiscal 2004. In Pennsylvania, we sold 1,316 million kWh at an average price of $0.064 in the fiscal year ended July 31, 2004, as compared to 976 million kWh sold at an average price of $0.058 in the fiscal year ended July 31, 2003. The volume increase was primarily due to the acquisition of commercial customers towards the end of fiscal 2003. The price increase is primarily attributed to our targeting new commercial customers with higher average rates and a reduced number of residential customers in fiscal 2004. In Michigan, we sold 309 million kWh at an average price per kWh of $0.058 in fiscal 2004, as compared to 230 million kWh at an average retail price per kWh of $0.069 in the same period last year. Our volume increased as a result of our sales operations. In California, we sold 1,219 million kWh at an average price of $0.068 in fiscal 2004, as compared to 1,191 million kWh sold at an average price of $0.073 in fiscal 2003. In New Jersey, we sold 16 million kWh at an average price of $0.069 in fiscal 2004 compared to no sales in fiscal 2003, as we began to offer electric service in New Jersey in December 2003.

The $5.6 million green power credits in fiscal 2003 represents the recovery from the reinstatement by the State of California Public Purpose Program to provide incentives to suppliers of renewable power to reduce the cost of such power to certain customers. This green power credit program was discontinued for periods after March 2003.

We had approximately 102,000 retail customers at July 31, 2004, a decrease of 16,000, or 14%, from 118,000 at July 31, 2003. Customer attrition was 11% and 21% in California and Pennsylvania, respectively, from the prior fiscal year. These declines primarily are the result of our customer focus on increasing our commercial and industrial base, which have much higher average electricity usage and generally higher rates, while reducing the number of residential customers, which have much lower average usage and generally lower rates. The decline in our customer base is also partially attributed to increased energy costs to serve our customers.

Direct Energy Costs .

Direct energy costs, which are recognized concurrently with related energy sales, include the aggregated cost of purchased electric power, fees incurred from various energy-related service providers, and energy-related taxes that cannot be passed directly through to the customer.

Our direct energy costs increased to $191.2 million for fiscal 2004, an increase of $63.0 million, or 49%, from $128.2 million for fiscal 2003. The significant increase in direct energy costs per retail kWh delivered occurred in all states, primarily due to the increase of natural gas costs which is a significant factor influencing electricity costs in our markets. The increase in our customer base was also a contributing factor to the absolute increase in direct energy costs. In Pennsylvania, the average cost per kWh was $0.063 for the fiscal year ended July 31, 2004, as compared to an average cost per kWh of $0.059 for fiscal 2003. In Michigan, the average cost per kWh was $0.051 for the fiscal year ended July 31, 2004, as compared to an average cost per kWh of $0.059 for fiscal 2003. In California, the average cost per kWh was $0.058 for fiscal 2004, as compared to an average cost per kWh of $0.048 for fiscal 2003. In New Jersey, our new market in fiscal 2004, the average cost per kWh was $0.049 for fiscal 2004.

Selling and Marketing Expenses

Our selling and marketing expenses were $4.1 million for fiscal 2004, a decrease of $0.1 million, or 4%, from $4.2 million for fiscal 2003. Selling and marketing expenses for fiscal 2004 primarily represent marketing efforts associated with our expansion into the New Jersey market, including radio and newspaper advertising and further market research conducted on certain states under consideration for future expansion. As part of

ur strategy of expanding into new markets, we expect to continue to incur these types of marketing and advertising cost.

General and Administrative Expenses

Our general and administrative expenses were $25.9 million for fiscal 2004, an increase of $7.4 million, or 40%, from $18.5 million for fiscal 2003. The increase in fiscal 2004 was primarily due from the consolidation of PEC of $2.1 million through the third quarter of fiscal 2004; severance payments totaling $1.9 million related to the settlement of the employment contracts of our former Chief Operating and Chief inancial Officers; stock based compensation expense of $0.6 million for fully vested options that were granted in fiscal 2004 with an exercise rice below fair market value on the grant date; relocation expenses of $0.5 million for our new officers; additional bad debt expense of $0.7 million and insurance costs of $0.6 million.

Reorganization and Initial Public Listing Expenses

We incurred $3.4 million in fiscal 2004 of costs related to our reorganization into a Delaware holding company structure and the initial ublic listing of our common stock on the American Stock Exchange. Management believes it is appropriate to classify these costs as separately identified operating expenses. These general and administrative expenses incurred in connection with the reorganization included legal of $1.5 million, insurance of $0.9 million, consulting of $0.5 million, and printing and reproduction fees of $0.4 million, and accounting nd auditing of $0.1 million.

Initial Formation Litigation Expenses

In fiscal 2004, we incurred $1.6 million of initial formation litigation costs related to our formation compared to $4.4 million of such costs incurred during fiscal 2003. Initial formation litigation expenses include legal and litigation costs associated with the initial capital raising efforts by former employees, and the legal complications arising from those matters. The fiscal 2003 expense includes $2.2 million which was ccrued in connection with a lawsuit filed by several former employees, who were employed during 1998 and 1999, exclusively to raise capital or us from outside investors. In fiscal 2004, we settled this litigation and the settlement resulted in a reduction of the accrual of $0.5 million after final settlement payments were made to the plaintiffs.

Provision for Impairment on Investments

In fiscal 2004, we recorded a provision for impairment of $7.1 million on investments previously held by Summit, to reflect our percentage wnership in the net equity reflected in the financial statements of each investment entity. The impairments reflected continuing operating losses, liquidity and future funding uncertainties on all three investments. For Encorp, we recorded a $1.9 million provision for impairment with a remaining investment basis of $0.1 million in our consolidated financial statements. For Turbocor, we recorded a $4.1 million provision or impairment with no remaining investment basis in our consolidated financial statements. For PEC, we recorded a $1.1 million provision for mpairment with no remaining investment basis after the provision for termination below to reflect our reduced investment ownership percentage in PEC shares. See Note 9 of Notes to Consolidated Financial Statements.

Loss on Termination of Summit

In fiscal 2004, we recorded a loss on the termination of Summit of $1.9 million. The loss included contractually owed management fees nd transaction costs of $1.6 million and a reduction of our ownership interest from 75.9% to 39.9% in PEC to reflect settlement and the ermination of Summit. See Note 9 of Notes to Consolidated Financial Statements.

Loss on Equity Investments

In fiscal 2003, we incurred a $0.6 million aggregate loss on equity investments which reflected our proportionate recognition of losses nder the equity method of accounting relating to PEC and, to a lesser

xtent, Turbocor. By the end of fiscal 2003, Summit acquired a majority ownership position in PEC, thereby causing consolidation of PEC into ur consolidated financial statements for the fiscal year ended July 31, 2003. The consolidation continued through April 30, 2004, when the termination agreement with Summit reduced our ownership percentage to 39.9%. By the end of our fiscal year ended July 31, 2003, Summit's ownership interest in Turbocor had been reduced to a level at which we no longer exercised significant influence; accordingly, in the current fiscal year, we accounted for Turbocor under the cost method of accounting.

Minority Interest Share of Loss

Minority interest share of loss represents that portion of PEC's post-consolidation losses that were allocated to the non-Summit investors based on their aggregate minority ownership interest in PEC. For the fiscal year ended July 31, 2004 and 2003, the minority interest share of loss was $1.2 million and $0.2 million, respectively.

Interest Income, Net

Our interest income, net was $0.5 million for fiscal 2004, a decrease of $0.2 million, or 23%, from $0.7 million in fiscal 2003. The decrease in interest income was primarily due to lower market yields realized on short-term investments.

Provision for (benefit from) Income Taxes

The benefit from income taxes was $1.0 million for fiscal 2004, compared to the provision for income taxes of $5.1 million for fiscal 2003. In fiscal 2004, the benefit from income taxes was comprised of a write-down of deferred tax assets for $2.5 million offset by operating loss carrybacks of $3.5 million. Our effective income tax benefit rate was 4.5% for fiscal 2004, compared to an effective income tax rate of 48.5% for fiscal 2003. The decrease in the effective tax rate was primarily due to the increase in the valuation allowance for deferred tax assets.

Year Ended July 31, 2003 Compared to Year Ended July 31, 2002

Net Revenue

Our net revenue for fiscal 2003 was $165.5 million, an increase of $47.7 million, or 41%, from $117.8 million in fiscal 2002. The increase is primarily due to increased energy sales in California of $10.4 million, Pennsylvania of $17.8 million and Michigan of $16.0 million, with the remaining increase due to higher green power credits by $3.5 million.

We sold 1,191 million kWh at an average price per kWh of $0.073 in California during fiscal 2003, as compared to 1,111 million kWh sold at an average price per kWh of $0.069 during fiscal 2002. This increase in volume was due primarily to the acquisition of large commercial customers from other ESPs. The increase in price is primarily attributed to the higher price per kWh for excess energy in fiscal 2003 compared to fiscal 2002 partially offset by the historical procurement charge in the Southern California Edison territory. For a more complete discussion of the historical procurement charge and related CPUC activities see "Factors That May Affect Future Results — Historical procurement charges and customer rate changes could adversely affect our revenue and cash flows in the Southern California Edison utility district" in this Item 7. We sold 976 million kWh at an average price per kWh of $0.058 in Pennsylvania during fiscal 2003, as compared to 938 million kWh sold at an average price per kWh of $0.042 during fiscal 2002. This slight increase was due primarily to the acquisition of *approximately 40,000 customers in Pennsylvania under a bid process that was a part of a regulatory electric utility restructuring in* Pennsylvania. We sold 230 million kWh at an average price per kWh of $0.069 in Michigan during fiscal 2003, as compared to no sales during fiscal 2002.

The increases in Michigan and Pennsylvania was primarily due to our increased customer base as we entered the Michigan market and gained market share in Pennsylvania.

The $3.5 million, or 173%, increase in our fiscal 2003 green power credits was attributable primarily to the recognition in fiscal 2003 of green power credits for the final seven months of fiscal 2002 and the first eight

months of fiscal 2003 when it became clear that they were recoverable due to the reinstatement by the State of California of the Public Purpose Program to provide incentives to suppliers of renewable power to reduce the cost of such power to certain customers. This green power credit program was discontinued after March 2003.

We had approximately 118,000 retail customers at July 31, 2003, an increase of 29,000, or 33%, from 89,000 at July 31, 2002. This increase was due primarily to the successful acquisition of approximately 40,000 customers in Pennsylvania under a bid process. The addition of these customers occurred in May and June 2003. Our customer count, net of the 40,000 additions in Pennsylvania, was reduced due to our focus on increasing our commercial and industrial customer base, which have much higher average electricity usage, while reducing the number of residential customers, which have lower average electricity usage.

Direct Energy Costs

Direct energy costs, which are recognized concurrently with related energy sales, include the aggregated cost of purchased electric power, fees incurred from various energy-related service providers and related taxes that cannot be passed directly through to the customer. Our direct energy costs were $128.2 million for fiscal 2003, an increase of $40.9 million, or 47%, from $87.3 million for fiscal 2002. In California, the average cost per kWh sold was $0.048 during fiscal 2003, as compared to an average cost per kWh sold of $0.036 during fiscal 2002. In Pennsylvania, the average cost per kWh sold was $0.059 during fiscal 2003, as compared to an average cost per kWh sold of $0.050 during fiscal 2002. In Michigan, the average cost per kWh sold was $0.059 during fiscal 2003. Michigan was a new market for us in fiscal 2003. The fiscal 2003 increase in our direct energy costs was primarily attributable to increased kWh purchases to accommodate our entry into the Michigan market and additional customer deliveries in Pennsylvania as we gained market share. To a lesser extent, the fiscal 2003 increase was attributable to higher kWh prices paid as a result of increased natural gas prices incurred by our suppliers.

Selling and Marketing Expenses

Our selling and marketing expenses were $4.2 million for fiscal 2003, an increase of $0.7 million, or 21%, from $3.5 million for fiscal 2002. The fiscal 2003 increase was primarily attributable to increased marketing efforts associated with our expansion into the Pennsylvania and Michigan markets.

General and Administrative Expenses

Our general and administrative expenses were $18.5 million for fiscal 2003, an increase of $1.8 million, or 10%, from $16.7 million for fiscal 2002. The fiscal 2003 increase was primarily attributable to increases in legal expenses incurred in connection with litigation and the proxy contest related to our last annual meeting of stockholders, merit compensation increases, and increased premiums on directors and officers insurance, partially offset by certain cost savings achieved through the internalization of certain previously outsourced information technology capabilities. Our general and administrative expenses for fiscal 2002 were also reduced by a $0.7 million reversal of previously recognized stock-based compensation.

Initial Formation Litigation Expenses

In fiscal 2003, we incurred $4.4 million of initial formation litigation costs related to our formation compared to $1.7 million of such costs incurred in fiscal 2002. The increase of $2.7 is primarily attributed to $2.2 million which were accrued in connection with a lawsuit filed by several former employees, who were employed during 1998 and 1999, exclusively to raise capital for us from outside investors.

Loss on Equity Investments

We incurred a $0.6 million aggregate loss on equity investments for fiscal 2003, as compared to a $0.2 million aggregate loss for fiscal 2002. The loss on equity investments for fiscal 2003 primarily reflects our proportionate recognition of losses under the equity method of accounting from our consolidation of Summit; namely, the losses incurred by PEC through April 30, 2003, and, to a significantly lesser extent, Turbocor through January 2003. Effective May 1, 2003, we began consolidating PEC as Summit had obtained a

majority ownership position in PEC. Effective February 1, 2003, because Summit's ownership position in Turbocor had been reduced to a level which it no longer exercised significant influence; we began accounting for Turbocor under the cost method of accounting. In contrast, fiscal 2002 primarily reflected our proportionate recognition under the equity method of accounting, from our consolidation of Summit, of the losses incurred by Turbocor and PEC from the dates of Summit's initial equity investments in Turbocor and PEC, in January 2002 and June 2002, respectively.

Minority Interest Share of Loss

Minority interest represents that portion of PEC's post-consolidation losses that are allocable to the non-Summit investors based on their aggregate minority ownership interest in PEC.

Interest Income, Net

Our interest income, net, was $0.7 million for fiscal 2003, a decrease of $0.2 million, or 24%, from $0.9 million for fiscal 2002. The fiscal 2003 net decrease resulted from a $0.6 million decrease in interest income, partially offset by a $0.4 million decrease in interest expense. The fiscal 2003 decrease in interest income primarily was attributable to lower yields realized on short-term investments and, to a significantly lesser extent, lower average investment balances. The fiscal 2003 decrease in interest expense primarily was attributable to the non-recurrence of $0.4 million of fiscal 2002 interest expense incurred in connection with borrowings under our then outstanding credit facility, which was terminated in June 2002.

Provision for Income Taxes

Our provision for income taxes was $5.1 million for fiscal 2003, compared to $4.1 million for fiscal 2002. Our effective income tax rate was 49% for fiscal 2003, compared to 44% for fiscal 2002. The fiscal 2003 increase in our effective income tax rate was attributable primarily to an increase due to the expiration of certain stock options in fiscal 2003, the value of which was charged to expense for financial reporting purposes but not deductible for income tax purposes, partially offset by a decrease in our valuation allowance as a result of our utilization of net operating loss carry forwards for federal income tax purposes.

Liquidity and Capital Resources

We have sustained our operations and funded our growth substantially with our working capital and internally generated cash flows from operations. Based upon our current plans, level of operations and business conditions, we believe that our cash and cash equivalents, and cash generated from our operations will be sufficient to meet our capital requirements and working capital needs for the foreseeable future. However, there can be no assurance that we will not be required to seek other financing in the future or that such financing, if required, will be available on terms satisfactory to us.

We do not have open lines of credit for direct unsecured borrowings or for letters of credit. Credit terms from our suppliers of electricity often require us to post collateral against our energy purchases and against our mark-to-market exposure with certain of our suppliers. We currently finance these collateral obligations with our available cash. As of July 31, 2004, we had $4.0 million in restricted cash and cash equivalents to secure letters of credit required by our suppliers and $5.1 million in deposits pledged as collateral in connection with energy purchase agreements. We have granted a security interest in our Michigan accounts receivable as security for payment of energy purchases from an affiliate of the local utility. If our collateral needs increase, we will need to either increase the portion of our cash which will be restricted or find alternative means to finance our obligations, which may have an adverse effect on our liquidity.

Our unrestricted cash and cash equivalents increased by $13.2 million, or 32%, to $54.1 at July 31, 2004, as compared with $40.9 million at July 31, 2003. Our working capital increased by $1.7 million, or 3%, to $58.1 million at July 31, 2004, from $56.4 million at July 31, 2003.

Cash provided by operating activities for fiscal 2004 was $0.3 million, compared to $5.6 million in the prior year. In fiscal 2004, cash was provided primarily by a decrease in accounts receivable primarily due to the

reen power credit payment of $5.6 million received in October 2003, an increase in accounts payable of $4.7 million due primarily to creased energy purchases, and the costs related to the termination of Summit; offset by an increase in prepaid expenses of $5.7 million related primarily to prepaid gross receipts tax in March 2004 for Pennsylvania, which is directly driven by increased energy sales in Pennsylvania.

Cash used in investing activities was $1.1 million in fiscal 2004, as compared to $1.5 million in fiscal 2003. Cash used in investments for the current fiscal year consisted of higher capital expenditures and in the prior year primarily due to the acquisition of the majority ownership of PEC and Summit investments.

Cash provided by financing activities during fiscal 2004 was $14.0 million, as compared to cash used in financing activities of $6.3 million during fiscal 2003. In the current fiscal year, restricted cash and cash equivalents decreased by $15.0 million was primarily due to the ancellation of the fiscal 2003 required security for an appeals bond of $4.1 million related to a settled litigation, the $7.7 million net reduction f the required letters of credit secured by cash related to energy suppliers in fiscal 2003, and the remaining decrease was due to the use of Summit's restricted cash for operations and termination of our relationship with Summit.

Planned Capital Expenditures

Our planned capital expenditures for the fiscal year ending July 31, 2005 ("fiscal 2005") are $1.7 million. Planned capital expenditures nclude computer hardware and software, office equipment and furniture. The expenditures are expected to be pro rata throughout the year and unded out of working capital.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements and have no transactions involving unconsolidated, limited purpose entities.

Contractual Obligations

We currently are party to a number of supply contracts requiring us to purchase electrical power covering approximately 74% of our ustomers' load servicing requirements for fiscal 2005 based on our forecast. As these contracts contain fixed prices at which we will be required to make such purchases, our future results of operations for the fiscal periods covered by these contracts will be significantly influenced by our ability to then resell this purchased electrical power to our customers at prices sufficient to cover our direct and indirect costs nd to realize a profit.

Our most significant operating lease pertains to our corporate office facilities. All of our other operating leases pertain to various quipment and technology. Certain of these operating leases are non-cancelable and contain clauses that pass through increases in building perating expenses. We incurred aggregate rent expense under operating leases of $704,000, $742,000, and $931,000 during fiscal 2002, 2003 and 2004, respectively.

We have four executive employment agreements in existence at July 31, 2004 that commit us to pay future base salaries. Under these agreements, we may also be required to pay bonuses in the event of a change of control and/or upon early termination of employment. For a description of the change of control and severance bonuses with respect to our Named Executive Officers, see "Item 11. Executive Compensation — Employment Agreements."

The following table shows our contractual commitments as of July 31, 2004:

Contractual Obligations	Total	Payments Due by Period: Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
		(Dollars in thousands)			
Electricity purchase contracts	$103,521	$75,786	$27,735	$ —	$ —
Operating leases	4,017	1,240	2,691	86	—
Employment Agreements	2,350	1,100	1,250	—	—
Total	$109,888	$78,126	$31,676	$ 86	$ —

Seasonal Influences

Demand for electrical power is continually influenced, by both seasonal and abnormal weather patterns. To the extent that one or more of our markets experiences a period of unexpected weather, we may be required to either attempt to procure additional electricity to service our customers or to sell surplus electricity in the open market.

Factors That May Affect Future Results

If competitive restructuring of the electric markets is delayed or does not result in viable competitive market rules, our business will be adversely affected.

The Federal Energy Regulatory Commission, or FERC, has maintained a strong commitment over the past seven years to the deregulation of electricity markets. This movement would seem to indicate the continuation and growth of a competitive electric retail industry. Twenty-four states and the District of Columbia have either enacted enabling legislation or issued a regulatory order to implement retail access. In 18 of these states, retail access is either currently available to some or all customers, or will soon be available. However, in many of these markets the market rules adopted have not resulted in energy service providers being able to compete successfully with the local utilities and customer switching rates have been low. Only recently have a small number of markets opened to competition under rules that we believe may offer attractive competitive opportunities. Our business model depends on other favorable markets opening under viable competitive rules in a timely manner. In any particular market, there are a number of rules that will ultimately determine the attractiveness of any market. Markets that we enter may have both favorable and unfavorable rules. If the trend towards competitive restructuring of retail energy markets does not continue or is delayed or reversed, our business prospects and financial condition could be materially adversely impaired.

Retail energy market restructuring has been and will continue to be a complicated regulatory process, with competing interests advanced not only by relevant state and federal utility regulators, but also by state legislators, federal legislators, local utilities, consumer advocacy groups and potential market participants. As a result, the extent to which there are legitimate competitive opportunities for alternative energy suppliers in a given jurisdiction may vary widely and we cannot assure stockholders that regulatory structures will offer us competitive opportunities to sell energy to consumers on a profitable basis. The regulatory process could be negatively impacted by a number of factors, including interruptions of service and significant or rapid price increases. The legislative and regulatory processes in some states take prolonged periods of time. In a number of jurisdictions, it may be many years from the date legislation is enacted until the retail markets are open for competition.

In addition, although most retail energy market restructuring has been conducted at the state and local levels, bills have been proposed in Congress in the past that would preempt state law concerning the restructuring of the retail energy markets. Although none of these initiatives has been successful, we cannot assure stockholders that federal legislation will not be passed in the future that could materially adversely affect our business.

We face many uncertainties that may cause substantial operating losses and we cannot assure stockholders that we can achieve profitability.

We intend to increase our operating expenses to develop and expand our business, including brand development, marketing and other promotional activities and the continued development of our billing, customer care and power procurement infrastructure. Our ability to operate profitably will depend on, among other things:

- Our ability to attract and to retain a critical mass of customers at a reasonable cost;
- Our ability to continue to develop and maintain internal corporate organization and systems;
- The continued competitive restructuring of retail energy markets with viable competitive market rules; and
- Our ability to effectively manage our energy procurement and shaping requirements, and to sell our energy at a sufficient profit margin.

We may have difficulty obtaining a sufficient number of customers.

We anticipate that we will incur significant costs as we enter new markets and pursue customers by utilizing a variety of marketing methods. In order for us to recover these expenses, we must attract and retain a large number of customers to our service.

We may experience difficulty attracting customers because many customers may be reluctant to switch to a new supplier for a commodity as critical to their well-being as electric power. A major focus of our marketing efforts will be to convince customers that we are a reliable provider with sufficient resources to meet our commitments. If our marketing strategy is not successful, our business, results of operations and financial condition could be materially adversely affected.

We depend upon internally developed systems and processes to provide several critical functions for our business, and the loss of these functions could materially adversely impact our business.

We have developed our own systems and processes to operate our back-office functions, including customer enrollment, metering, forecasting, settlement and billing. Problems that arise with the performance of our back-office functions could result in increased expenditures, delays in the launch of our commercial operations into new markets, or unfavorable customer experiences that could materially adversely affect our business strategy. Also, any interruption of these services could be disruptive to our business.

Substantial fluctuations in electricity prices or the cost of transmitting and distributing electricity could have a material adverse affect on us.

To provide electricity to our customers, we must, from time to time, purchase electricity in the short-term or spot wholesale energy markets, which can be highly volatile. In particular, the wholesale electric power market can experience large price fluctuations during peak load periods. Furthermore, to the extent that we enter into contracts with customers that require us to provide electricity at a fixed price over an extended period of time, and to the extent that we have not purchased electricity to cover those commitments, we may incur losses caused by rising wholesale electricity prices. Periods of rising electricity prices may reduce our ability to compete with local utilities because their regulated rates may not immediately increase to reflect these increased costs. Energy Service Providers like us take on the risk of purchasing power for an uncertain load and if the load does not materialize as forecast, it leaves us in a long position that would be resold into the wholesale electricity market. Sales of this surplus electricity could be at prices below our cost. Conversely, if unanticipated load appears that may result in an insufficient supply of electricity, we would need to purchase the additional supply. These purchases could be at prices that are higher than our sales price to our customers. Either situation could create losses for us if we are exposed to the price volatility of the wholesale spot markets. Any of these contingencies could substantially increase our costs of operation. Such factors could have a material adverse effect on our financial condition.

We are dependent on local utilities for distribution of electricity to our customers over their distribution networks. If these local utilities are unable to properly operate their distribution networks, or if the operation of their distribution networks is interrupted for periods of time, we could be unable to deliver electricity to our customers during those interruptions. This would results in lost revenue to us, which could adversely impact the results of our operations.

Historical procurement charges and customer rate changes in the Southern California Edison utility district could adversely affect our revenue and cash flows.

Under a Settlement agreement with the California PUC, SCE was authorized to recoup $3.6 billion in debt incurred during the energy crisis of 2000-2001 from all customers. This debt was to be collected under the Procurement Related Obligations Account, or PROACT, from bundled (non direct access) customers and under the HPC from DA customers.

In July 2002, the California PUC issued an interim order implementing the HPC sought by SCE. This interim order authorized SCE to collect $391 million in HPC charges from all DA customers by reducing their Procured Energy Credit, or PE Credit, by $0.027 per kWh beginning July 27, 2002. The lowered PE Credit continued until an exit fee for DA customers was approved by the CPUC. Effective January 1, 2003, it was reduced to $0.01 per kWh. For the fiscal year ended July 31, 2003, we estimate that HPC charges have impacted our sales and pretax earnings by a range of $4.8 million to $6.0 million. We are unable to precisely determine the actual HPC charges applied to our customers by SCE because there are different charges, by customer type, and this charge is only on the electricity usage above the monthly baseline usage allocation.

On September 5, 2003 the CPUC issued Decision 03-09-016 granting SCE's request to recover additional shortfall and authorizing the HPC balance to be revised to $473 million; however, the $0.01 per kWh monthly charge remained in place. As of August 1, 2003, SCE revised its billing methodology to a "bottoms-up" design effectively doing away with the PE Credit and the net effect of the HPC on our rates. While the HPC no longer discretely impacts our rate calculations, a recent SCE rate reduction includes the former impact of the HPC. This rate reduction will impact sales and pretax profit in the SCE district. The rate reduction will be in place in 2004 and will approximate the effect of the HPC dollar impact of 2003.

Recently, SCE acknowledged that the PROACT debt was paid in full by bundled customers at the end of July 2003. As a result, on August 1, 2003, all SCE rates were lowered. As a direct result, to retain our customers in the SCE utility district, we lowered our customer rates proportionately. Our estimate of the annual financial impact of this rate reduction is a decline in sales and pretax profit during fiscal 2004, in the range of $3.0 to $3.5 million. This reduction is separate from, and in addition to, the HPC related reduction in 2003.

These changes in the SCE service territory will continue to cause a significant impact on our revenue and cash flow; however, we currently do not expect they will preclude us from continuing to participate in the SCE market.

Some suppliers of electricity have been experiencing deteriorating credit quality.

We continue to monitor our suppliers' credit quality to attempt to reduce the impact of any potential counterparty default. As of July 31, 2004, the majority of our counterparties are rated investment grade or above by the major rating agencies. These ratings are subject to change at any time with no advance warning. A deterioration in the credit quality of our suppliers could have an adverse impact on our sources of electricity purchases.

If the wholesale price of electricity decreases, we may be required to post letters of credit for margin to secure our obligations under our long term energy contracts.

As the price of the electricity we purchase under long-term contracts is fixed over the term of the contracts, if the market price of wholesale electricity decreases below the contract price, the power generator may require us to post margin in the form of a letter of credit, or other collateral, to protect themselves against

ur potential default on the contract. If we are required to post such security, a portion of our cash would become restricted, which could dversely affect our liquidity.

We are required to rely on utilities with whom we will be competing to perform some functions for our customers.

Under the regulatory structures adopted in most jurisdictions, we will be required to enter into agreements with local utilities for use of the local distribution systems, and for the creation and operation of functional interfaces necessary for us to serve our customers. Any delay in hese negotiations or our inability to enter into reasonable agreements with those utilities could delay or negatively impact our ability to serve ustomers in those jurisdictions. This could have a material negative impact on our business, results of operations and financial condition.

We are dependent on local utilities for maintenance of the infrastructure through which electricity is delivered to our customers. We are mited in our ability to control the level of service the utilities provide to our customers. Any infrastructure failure that interrupts or impairs delivery of electricity to our customers could have a negative effect on the satisfaction of our customers with our service, which could have a material adverse effect on our business.

Regulations in many markets require that the services of reading our customers' energy meters and the billing and collection process be retained by the local utility. In those states, we will be required to rely on the local utility to provide us with our customers' energy usage data nd to pay us for our customers' usage based on what the local utility collects from our customers. We may be limited in our ability to confirm he accuracy of the information provided by the local utility and we may not be able to control when we receive payment from the local utility. The local utility's systems and procedures may limit or slow down our ability to create a supplier relationship with our customers that would elay the timing of when we can begin to provide electricity to our new customers. If we do not receive payments from the local utility on a mely basis, our working capital may be impaired.

In some markets, we are required to bear credit risk and billing responsibility for our customers.

In some markets, we are responsible for the billing and collection functions for our customers. In these markets, we may be limited in our ability to terminate service to customers who are delinquent in payment. Even if we terminate service to customers who fail to pay their utility ill in a timely manner, we may remain liable to our suppliers of electricity for the cost of the electricity and to the local utilities for services elated to the transmission and distribution of electricity to those customers. The failure of our customers to pay their bills in a timely manner or our failure to maintain adequate billing and collection programs could materially adversely affect our business.

Our revenues and results of operations are subject to market risks that are beyond our control.

We sell electricity that we purchase from third-party power generation companies to our retail customers on a contractual basis. We are not uaranteed any rate of return through regulated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity in our regional markets. These market prices may fluctuate substantially over relatively short periods of time. These factors could have an adverse impact on our revenues and results of operations.

Volatility in market prices for electricity results from multiple factors, including:

- weather conditions, including hydrological conditions such as precipitation, snow pack and streamflow,
- seasonality,
- unexpected changes in customer usage,
- transmission or transportation constraints or inefficiencies,
- planned and unplanned plant or transmission line outages,
- demand for electricity,

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- natural gas, crude oil and refined products, and coal supply availability to generators from whom we purchase electricity,
- natural disasters, wars, embargoes and other catastrophic events, and
- federal, state and foreign energy and environmental regulation and legislation.

Our results of operation and financial condition could be affected by pending and future litigation.

We are currently a defendant in several pending lawsuits. We believe our substantive and procedural defenses in each of these cases are meritorious, but we cannot predict the outcome of any such litigation. In addition, we may become subject to additional lawsuits in the future. If we are held liable for significant damages in any lawsuit, our operations and financial condition may be harmed. In addition, we could incur substantial expenses in connection with any such litigation, including substantial fees for attorneys and other professional advisors. These expenses could adversely affect our operations and cash position if they are material in amount.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. For example, in our preparation for our 2004 audit, we discovered an unreconciled energy accounting issue that caused us to restate our second and third quarter reported results. Our external auditor identified this issue as a reportable condition and a material weakness, which means that this was an issue that in the auditor's judgment could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In 2004, we devoted resources to remediate and improve our internal controls. Although we believe that these efforts have strengthened our internal controls and addressed the concerns that gave rise to the reportable condition and material weakness in 2004, we are continuing to work to improve our internal controls, including in the area of energy accounting. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

Investor confidence and share value may be adversely impacted if our independent auditors are unable to provide us with the attestation of the adequacy of our internal controls over financial reporting as of July 31, 2005, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on our internal controls over financial reporting in our Annual Reports on Form 10-K that contains an assessment by management of the effectiveness of our internal controls over financial reporting. In addition, our independent auditors must attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. This requirement will first apply to our Annual Report on Form 10-K for the fiscal year ending July 31, 2005. How companies should be implementing these new requirements including internal control reforms, if any, to comply with Section 404's requirements, and how independent auditors will apply these new requirements and test companies' internal controls, are subject to uncertainty. Although we are diligently and vigorously reviewing our internal controls over financial reporting in order to ensure compliance with the new Section 404 requirements, if our independent auditors are not satisfied with our internal controls over financial reporting or the level at which these controls are documented, designed, operated or reviewed, or if the independent auditors interpret the requirements, rules or regulations differently than we do, then they may decline to attest to management's assessment or may issue a report that is qualified. This could result in an adverse reaction in

the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact the market price of our shares.

We have initiated a company-wide review of our internal controls over financial reporting as part of the process of preparing for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and as a complement to our existing overall program of internal controls over financial reporting. As a result of this on-going review, we have made numerous improvements to the design and effectiveness of our internal controls over financial reporting through the period ended July 31, 2004. We anticipate that improvements will continue to be made.

Recent Accounting Standards

In October 2004, the FASB concluded that SFAS No. 123R, "Share-Based Payment", which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies (except small business issuer as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. We will adopt SFAS No. 123R on July 1, 2005 and we do not believe the adoption will have a material impact on our consolidated financial statements.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

For our investments, we do not have or use any derivative instruments to hedge the financial risks, nor do we have any plans to enter into such instruments. We generally invest cash equivalents in high-quality, short-term credit instruments consisting primarily of high credit quality, short-term money market funds and insured, remarketable government agency securities with interest rate reset maturities of 90 days or less. We do not expect any material loss from our investments. We invest in short term instruments and believe that our potential interest rate exposure is not material. We do not currently invoice customers in any currency other than the United States dollar and we do not currently incur significant expenses denominated in foreign currencies. We believe that we are not currently subject to any significant risk as a result of currency fluctuations.

Since we do not generate any of the electricity that we sell, our business has exposure to market volatility in prices of electricity. To mitigate risks associated with this price volatility, we have entered into a number of fixed-priced contracts for the purchase of electricity through the wholesale electricity market. Nevertheless, to the extent demand from our customers exceeds the supply we have obtained through fixed-price contracts, we are subject to wholesale price volatility risk.

Based on fiscal 2004 kWh sold, an electricity price change of $0.01 per kWh, would have an estimated annual impact on our net revenue of:

California	$11.6 million
Pennsylvania	$14.0 million
Michigan	$ 7.1 million

In fiscal 2004, we purchased substantially all of our power under long-term forward physical delivery contracts for supply to our retail electricity customers under long-term and full requirements sales contracts. We apply the normal purchase, normal sale accounting treatment to our forward purchase supply contracts and our customer sales contracts. Accordingly, we record revenue generated from our sales contracts as energy is delivered to our retail customers, and direct energy costs are recorded when the energy under our long-term forward physical delivery contracts is delivered. During fiscal 2004, we also used financial hedging, or derivative instruments, to hedge our commodity risks to a limited degree. At July 31, 2004, we had no positions in derivative instruments, however, we intend to use derivative instruments in the future as an efficient way of assisting in managing our price and volume risk in energy supply procurement for our retail customers. Some derivative instruments may not qualify as normal purchases and sales and may require mark-to-market accounting and the application of SFAS No. 133 in future periods.

Since we had no short or long-term debt outstanding at July 31, 2004, our only exposure to interest rate risks is limited to our investment of excess cash balances in interest-bearing instruments. However, as our practice has been, and currently continues to be, to only invest in high-quality debt instruments with

maturities or remarketing dates of 90 days or less, we currently are not materially susceptible to interest rate risks.

Item 8. ***Financial Statements and Supplementary Data.***

The financial statement information, including the report of independent auditors, required by this Item 8 is set forth on pages F-1 to F-28 of this Annual Report on Form 10-K and is hereby incorporated into this Item 8 by reference. The Quarterly Financial Information required by this Item 8 is set forth on page F-27 of this Annual Report on Form 10-K and is hereby incorporated into this Item 8 by reference.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Disclosure Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures. Our President, who has assumed the duties and responsibilities of the principal executive officer during the time that Mr. Carter is on administrative leave, and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. As a result of this evaluation which was conducted in the course of preparing our financial statements for the year ended July 31, 2004, and in connection with the corresponding audit by our independent auditors, Ernst & Young LLP, management has determined that our internal controls have not met our expectations.

We have advised the Audit Committee of our Board of Directors that, in the course of preparing our year-end 2004 financial statements, we noted deficiencies in internal controls relating to the timely reconciliation of energy purchases and related sales.

Our independent auditors, Ernst & Young LLP, have advised the Audit Committee that these internal control deficiencies constitute a reportable condition and a material weakness as defined in Statement on Auditing Standards No. 60. Immediately prior to the filing of this Annual Report on Form 10-K, we filed amended Quarterly Reports on Form 10-Q/ A for the periods ended January 31, 2004 and April 30, 2004. The amended Quarterly Reports principally restate prior reported results and include additional disclosures in the appropriate period as a result of finding the foregoing weakness in our internal controls.

With the assistance of our advisors, we continue to evaluate and implement methods to improve our internal controls and procedures. We have taken the following corrective actions, some of which we began to implement as early as May 2004:

- Established an energy accounting department to focus on reconciling the physical energy supply and delivery;
- Established a risk management oversight committee to assure compliance with our risk management control objectives;
- Hired a Director of Internal Audit, reporting directly to our Audit Committee, to monitor and review of adequacy of our internal controls;
- Adopted improved accounting policies, procedures and internal controls for the periodic consolidated financial closing process including closer management review of physical energy reconciliations;
- Improved the communication between operating, financial and management functions, and expanded our risk management reporting procedures; and
- Upgraded our technology in risk management, energy accounting and risk management reporting.

We have also designed and executed additional procedures to ensure that these disclosure and internal control deficiencies will not result in material misstatements in our consolidated financial statements contained

in this Annual Report on Form 10-K, and will not result in material misstatements in our future financial results.

Changes in Internal Control over Fincial Reporting. Other than as described above, there have been no material changes in our internal controls or in other factors that have materially affected or is reasonably likely to materially affect, internal controls subsequent to the date we carried out our evaluation.

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

Information About Our Directors

The Company's Certificate of Incorporation and Bylaws, provide for a "classified" Board of Directors. The number of authorized directors is currently five. Currently, there is one Class I director, whose term expires at the first annual meeting of stockholders to be held after the completion of fiscal 2004; two Class II directors, whose terms expires at the second annual meeting of stockholders to be held after the completion of fiscal 2004; and two Class III directors, whose terms expire at the third annual meeting of stockholders to be held after the completion of fiscal 2004. The following table sets forth information regarding our directors, including their age as of October 22, 2004, and business experience during the past five years. Each of our directors has served continuously as one of our directors since the date indicated in the biography below.

Name and Position	Age	Principal Occupation and Other Information
Class I Director		
Craig G. Goodman	54	Mr. Goodman has served as a director of Commerce Energy since December 2003. From 2002 to July 2004, Mr. Goodman served as a director of Commonwealth. Since 1997, Mr. Goodman has served as the President and Chief Executive Officer of the National Energy Marketers Association, a non-profit association representing a regionally diverse cross- section of wholesale and retail marketers of natural gas, electricity and energy-related products, services, information and technology. Between 1980 and 1997, Mr. Goodman served as a senior executive officer for two fortune 500 energy companies, and served as a senior energy and tax policy official in the Reagan and GHW Bush Administrations. Mr. Goodman is admitted to the bars of the states of Texas and Florida, as well as Washington, D.C. and the U.S. Supreme Court. Mr. Goodman received his bachelor's degree with honors in economics from the University of Maryland and a Juris Doctorate degree with a concentration in international corporate law and economics from the University of Miami School of Law.

Name and Position	Age	Principal Occupation and Other Information
Class II Directors		
Mark S. Juergensen	44	Mr. Juergensen has served as a director of Commerce Energy since December 2003 and as a director of Commonwealth since 2003. Mr. Juergensen has served as Vice President of Sales and Marketing for PredictPower, an energy solution software company he co-founded, since May 2000. From February 1995 to June 2000, he served in multiple leadership positions, including as a Commercial Manager, for Solar Turbines, Caterpillar's gas turbine division. From February 1992 to February 1995, he served as Director of Management Services for Sterling Energy International, a power generation management consulting firm he co-founded. Mr. Juergensen received a Bachelor of Science degree in Electrical engineering from the University of Southern California.
Peter Weigand	47	Mr. Weigand has served as a director of Commerce Energy since April 2004. Mr. Weigand became President of Commerce and Commonwealth in April 2004. He has also served on Commerce's Board of Directors since April 2004. Since 1996, Mr. Weigand served as Chairman and Chief Executive Officer of Skipping Stone, an energy consulting and technology firm he founded. Prior to forming Skipping Stone, Mr. Weigand held senior management positions at several energy marketing companies. Mr. Weigand holds a Bachelor of Business Administration from Wichita State University.

Name and Position	Age	Principal Occupation and Other Information
Class III Directors		
Ian B. Carter	66	Mr. Carter has been the Chairman of the Board of Directors and Chief Executive Officer of Commerce Energy since December 2003. Mr. Carter has been Chairman and Chief Executive Officer of Commonwealth since January 2000, and was the President from March 2003 through March 2004. During the preceding four month period prior to January 2000, he acted as Interim President of Commonwealth. Mr. Carter has served as a director of Commonwealth since 1999. From October 1988 to August 1999, Mr. Carter operated his own businesses, including a mortgage banking firm and a merchant banking firm. Prior to that, Mr. Carter served as an investment specialist for Coldwell Banker Commercial Brokerage and worked as a Systems Engineer and Salesman with IBM. Mr. Carter also served in the United States Army serving in Vietnam, Europe and the Pentagon. Mr. Carter received his Bachelor of Science degree in Engineering from the United States Military Academy at West Point, New York, and his Masters in Business Administration in finance from the University of Southern California.
Robert C. Perkins	65	Mr. Perkins has served as a director of Commerce Energy since December 2003 and as a director of Commonwealth since 1999. Mr. Perkins has served as Chairman and Chief Executive Officer of Hospital Management Services, a provider of financial and management consulting services to hospitals and similar institutions, since June 1969. Mr. Perkins received his Bachelor of Science degree in accounting from Bob Jones University.

Audit Committee Financial Expert

Our Board of Directors has determined that Robert C. Perkins, who serves as Chairman of the Audit Committee of our Board of Directors, is an Audit Committee Financial Expert. Mr. Perkins is independent, as the term is defined in Section 121(A) of the listing standards of the American Stock Exchange.

Information with Respect to Our Executive Officers

Information regarding our executive officers is included in Item 1A of Part I of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant," and is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission, or the SEC, initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required during fiscal 2004, and except as disclosed in the following paragraph, our officers, directors and greater-than-ten-percent beneficial owners complied with all Section 16(a) filing requirements during fiscal 2004.

The following persons made late filings of reports under Section 16(a) of the Exchange Act that related to transactions that occurred during fiscal 2004: (a) Ian B. Carter, one of our directors and executive officers, filed late Forms 4 in connection with the exercise of an option to purchase shares of Commonwealth common stock in March 2004 and in connection with the grant of an employee stock option in August 2003; (b) Robert C. Perkins, one of our directors, filed late Forms 4 in connection with the grant of stock options in August 2003 and the conversion of shares of Commonwealth Series A Preferred Stock into Commonwealth Common Stock in July 2004; (c) Craig G. Goodman, one of our directors, filed a late Form 4 in connection with two purchases of Commerce common stock in September 2004; (d) Kenneth L. Robinson, our Corporate Controller, filed a late Form 3 in connection with his initial appointment and filed a late Form 4 in connection the grant of an employee stock option in August 2003; (e) Michael G. Nelson, at the time an executive officer of Commonwealth, filed a late Form 4 in connection with the grant of an employee stock option in December 2003; (f) Linda Guckert, at the time an executive officer of Commonwealth, filed a late Form 4 in connection with the grant of an employee stock option in August 2003; (g) Robert Gunnin, at the time an executive officer of Commonwealth, filed a late Form 3 in connection with his initial appointment; (h) Mark S. Juergensen, one of our directors, filed a late Form 4 in connection with the grant of a stock option in August 2003. In addition, to our knowledge, Joseph P. Saline, Jr., one of Commonwealth's directors during fiscal 2004, has yet to file a Form 3 in connection with his initial appointment as a director and has not filed any Forms 4 with respect to any purchases or sales of our securities.

Code of Ethics

We have adopted a code of ethics, entitled the "Commerce Energy Group, Inc. Code of Business Conduct and Ethics," which applies to, among others, our directors, our principal executive officer, our principal financial officer, our principal accounting officer and all of our other officers and employees. A copy of the Commerce Energy Group, Inc. Code of Business Conduct and Ethics is filed as an exhibit to this Annual Report on Form 10-K. We intend to disclose amendments to or waivers from a required provision of the Commerce Energy Group, Inc. Code of Business Conduct and Ethics by including such information as an exhibit in future filings.

Item 11. ***Executive Compensation***

Compensation of Our Directors

Directors who also are our employees are not paid any fees or remuneration, as such, for their service on the Board of Directors or on any Board committee.

Cash Compensation. Each non-employee director is paid a quarterly retainer in the amount of $8,000, a fee of $1,000 for each Board meeting which the Board member attends in person and a fee of $750 for each Board meeting which the Board member attends telephonically. Directors who served on Board committees (other than the chairman of such committee) is paid $750 for each committee meeting the Board member attends in person and a fee of $500 for each Committee meeting which the Board member attends telephonically. Committee chairpersons are paid $1,000 for each committee meeting the chairperson attends, whether in person or telephonically. In addition, each non-employee director who resides outside the Southern California area is entitled to receive reimbursement for reasonable travel expenses in accordance with our travel expense policy, with respect to each Board or Board Committee meeting that such non-employee director attends in person.

Stock Options. Prior to fiscal 2004, stock options were awarded to non-employee directors on a case-by-case basis as determined by the Board of Directors. In recognition of their service on Commonwealth's Board from fiscal 2000 through fiscal 2003, Commonwealth agreed to issue certain stock options to Junona A. Jonas,

Robert C. Perkins, Craig G. Goodman and Mark S. Juergensen. In August 2003, in fulfillment of these agreements, Commonwealth granted the following stock options to these directors:

Name	Number of Shares Underlying Options Granted	Exercise Price	Expiration Date
Robert C. Perkins	100,000	$2.75	8/29/2013
	50,000	$2.75	8/29/2013
	50,000	$1.86	8/29/2013
	20,000(1)	$1.86	8/29/2013
	80,000(1)	$1.00	8/29/2013
Craig G. Goodman	50,000	$2.50	8/29/2013
	50,000	$2.75	8/29/2013
	50,000	$1.86	8/29/2013
Junona A. Jonas	50,000	$2.50	8/29/2013
	50,000	$2.75	8/29/2013
	50,000	$1.86	8/29/2013
Mark S. Juergensen	37,500	$1.86	8/29/2013

(1) Represents stock options issued to Mr. Perkins in connection with a Settlement Agreement and Release entered into between Mr. Perkins and Commonwealth in August 2003 with respect to a dispute between us and Perkins as to the number and terms of certain options to purchase shares of our common stock that had been promised to Mr. Perkins in 1999, 2001 and 2002.

Beginning in fiscal 2004, each non-employee director who first becomes a member of the Board will be granted an option to purchase 50,000 shares of our common stock pursuant to the Plan upon appointment or election to the Board, with the following terms and conditions: (a) the options shall be subject to all terms and conditions of the Plan; (b) the options shall vest quarterly at a rate of 12,500 shares on each three-month anniversary of the date of grant, with any unvested shares being forfeited if the Board member's service is terminated; (c) the options shall have a term of 10 years from the date of grant; (d) any vested options may be exercised, during the time the Board member is serving as a director or after such person ceases to be a director, prior to the expiration of the term of the option; and (e) the exercise price shall be the fair market value (as defined in the Plan) of the our common stock on the date of grant.

In addition, each non-employee member of the Board will be granted an option to purchase 50,000 shares of our common stock pursuant to the Plan, effective as of the close of business on the date of each annual meeting of stockholders at which such non-employee Director is elected a non-employee Director, with the following terms and conditions: (a) the options shall be subject to all terms and conditions of the Plan; (b) the options shall vest quarterly at a rate of 12,500 shares on each three-month anniversary of the date of grant, with any unvested shares being forfeited if the Board member's service is terminated; (c) the options shall have a term of 10 years from the date of grant; (d) any vested options may be exercised, during the time the Board member is serving as a director or after such person ceases to be a director, prior to the expiration of the term of the option; and (e) the exercise price shall be the fair market value (as defined in the Plan) of our common stock on the date of grant.

Each non-employee director is also eligible to receive awards under our 1999 Equity Incentive Plan, which we refer to as the Plan, a discretionary stock option plan. Except as described above, no stock options were issued to our directors for services under the Plan during fiscal 2004.

Compensation of Our Executive Officers

We are required by the SEC to disclose compensation paid by us during the last three fiscal years to (a) our Chief Executive Officer; (b) our four most highly compensated executive officers (other than the

Chief Executive Officer) who were serving as executive officers at the end of fiscal 2004; and (c) up to two additional individuals for whom such disclosure would have been provided under clause (a) and (b) above but for the fact that the individual was not serving as an executive officer at the end of fiscal 2004; provided, however, that no disclosure need be provided for any executive officer, other than the Chief Executive Officer, whose total annual salary and bonus does not exceed $100,000. Accordingly, we are disclosing information regarding compensation paid by us during the last three fiscal years to (a) Ian B. Carter (our Chief Executive Officer); (b) Peter Weigand (our President), Richard L. Boughrum (our Chief Financial Officer), and John A. Barthrop (our General Counsel and Secretary), the three most highly-compensated executive officers, other than the Chief Executive Officer, who were serving as executive officers at the end of fiscal 2004 and whose salary and bonus exceeded $100,000; and (c) Richard L. Paulsen, (Commonwealth's former Chief Operating Officer) and James L. Oliver (Commonwealth's former Chief Financial Officer), for whom disclosure would be required as two of the Company's most highly-compensated executive officers, but for the fact that they were not serving as executive officers of the Company at the end of fiscal 2004. All of these officers are referred to in this Annual Report as the "Named Executive Officers."

Summary Compensation Table

The following table sets forth for each of the past three fiscal years, all compensation received for services rendered in all capacities by the Named Executive Officers.

		Annual Compensation			Long Term Compensation: Awards	Long Term Compensation: Payouts		
Name and Principal Position	Fiscal Year	Salary	Bonus(1)	Other Annual Compensation	Restricted Stock Award(s)	Securities Underlying Options/ SARs	LTIP Payout	All Other Compensation
Ian B. Carter	2004	$467,404	$ 87,500	$33,156(2)	—	600,000	—	$ 167,000(3)
Chief Executive Officer,	2003	402,062	100,000	31,102(2)	—	—	—	—
and Chairman of the Board	2002	314,988	495,000	62,553(2)	—	3,800,000	—	—
John A. Barthrop	2004	233,124	72,000	16,313(4)	—	125,000	—	—
General Counsel	2003	202,527	55,500	18,132(4)	—	—	—	86,880(3)
	2002	182,016	55,500	16,203(4)	—	500,000	—	—
Peter Weigand	2004	130,769	—	1,547(6)	—	600,000	—	—
President(5)	2003	—	—	—	—	—	—	—
	2002	—	—	—	—	—	—	—
Richard L. Boughrum	2004	114,423	—	1,873(8)	150,000	500,000	—	—
Chief Financial Officer(7)	2003	—	—	—	—	—	—	—
	2002	—	—	—	—	—	—	—
Richard L. Paulsen	2004	318,413	80,000	12,872(10)	—	—	—	1,519,915(11)
Former Chief Operating	2003	360,066	75,000	23,823(10)	—	—	—	—
Officer(9)	2002	310,000	140,000	22,046(10)	—	—	—	—
James L. Oliver	2004	139,417	72,000	10,649(13)	—	—	—	172,000(14)
Former Chief Financial	2003	201,088	55,500	18,124(13)	—	125,000	—	—
Officer(12)	2002	171,000	89,813	19,966(13)	—	375,000	—	—

(1) Bonus compensation is determined pursuant to employment agreements and/or by the Compensation Committee and is generally based upon performance measured on a fiscal year basis.

(2) For Mr. Carter, the amount attributable to perquisites consists of automobile allowance of $15,600 in each of the fiscal years, and reimbursement primarily for medical insurance of $17,556, $15,502 and $46,953 for fiscal 2004, 2003 and 2002, respectively.

(3) Represents the positive difference between the valuation of our common stock as of the date stock options were exercised by Named Executive Officer and the exercise price of the options.

(Footnotes continued on the next page.)

(Footnotes continued from the proceeding page.)

(4) For Mr. Barthrop, the amount attributable to perquisites consists of automobile allowance of $7,200 in each of the fiscal years, and reimbursement primarily for medical insurance of $9,113, $10,932 and $9,003 for fiscal 2004, 2003 and 2002, respectively.

(5) Mr. Weigand joined the Company on April 1, 2004.

(6) For Mr. Weigand, the amount attributable to perquisites in fiscal 2004 consists primarily of reimbursement for medical expenses of $1,547.

(7) Mr. Boughrum joined the Company on April 1, 2004.

(8) For Mr. Boughrum, the amount attributable to perquisites in fiscal 2004 consists primarily of reimbursement for medical expenses of $1,873.

(9) Mr. Paulsen served as Commonwealth's Chief Operating Officer until March 16, 2004.

(10) For Mr. Paulsen, the amount attributable to perquisites consists of automobile allowances of $5,600, $8,800 and $9,600 for fiscal 2004, 2003 and 2002, respectively, and reimbursement primarily for medical insurance of $7,272, $15,023 and $12,446 for fiscal 2004, 2003 and 2002, respectively.

(11) Represents severance payments made to Mr. Paulsen in connection with his resignation as an executive officer and employee of Commonwealth.

(12) Mr. Oliver served as Commonwealth's Chief Financial Officer until February 20, 2004

(13) For Mr. Oliver, the amount attributable to perquisites consists of automobile allowances of $4,200, $7,200 and $8,600 for fiscal 2004, 2003 and 2002, respectively, and reimbursement primarily for medical insurance of $6,449, $10,924 and $11,396 for fiscal 2004, 2003 and 2002, respectively.

(14) Represents severance payments made to Mr. Oliver in connection with his resignation as an executive officer and employee of Commonwealth.

Stock Option Grants.

Stock Option Grants. The following table shows stock option grants to the Named Executive Officers during fiscal 2004.

Option/ SAR Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
Name	Number of Securities Underlying Options/SARs Granted (#)(1)	Percent of Total Options/ SARs Granted to All Employees	Exercise or Base Price Per Share ($)(2)	Expiration Date	5% ($)	10%
Jan B. Carter	600,000(4)	18.2%	$2.50(5)	1/1/2010	$ 81,914	$ 640,449
John A. Barthrop	125,000	3.8%	$1.92	4/1/2014(6)	$150,935	$ 382,498
Peter Weigand	600,000	18.2%	$1.92	4/1/2014(7)	$724,487	$1,835,991
Richard L. Boughrum	500,000	15.2%	$1.92	4/1/2014(7)	$603,739	$1,529,993
Richard L. Paulsen	—	—	—	—	—	—
James L. Oliver	—	—	—	—	—	—

(1) Upon a change in control of the Company (as defined in the stock option agreements relating to the respective plans), the options shall, notwithstanding the installment vesting provisions, become immediately exercisable in full.

(Footnotes continued on the next page.)

(Footnotes continued from the proceeding page.)

(2) Except as indicated, all options were granted at the fair market value on the date of grant, as determined by the Compensation Committee of the Board on the date of grant.

(3) We are required by the SEC to use 5% and 10% assumed rate of appreciation over the option term. This does not represent our estimate or projection of the future common stock price. If the common stock does not appreciate, the Named Executive Officers will receive no benefit from the options.

(4) These options were granted pursuant to the terms of Mr. Carter's employment agreement, which provides for an annual grant of options to purchase up to 300,000 shares of the Company's Common Stock upon meeting or exceeding the Company's financial performance objectives as set forth in its business plan. The Company exceeded the applicable performance goals in 2002 and 2003, entitling Mr. Carter to an option to purchase 300,000 shares of the Company's Common Stock for each year. These options were granted in fiscal 2004 and were fully vested on the date of grant.

(5) These options were granted at the price required by the terms of Mr. Carter's employment agreement.

(6) Nonqualified stock options which were fully vested on the date of grant.

(7) Nonqualified stock options which vest 25% immediately and the remainder pro rata over a four year period from the date of grant.

Option Exercises/ Fiscal Year End Value.

The following table shows stock option exercises and the value of unexercised stock options held by the Named Executive Officers during fiscal 2004.

Aggregated Option/ SAR Exercises in Last Fiscal Year and FY-End Option/ SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End ($)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ian B. Carter	100,000	$167,000	3,050,000	1,250,000	$115,000	—
Peter Weigand	—	—	150,000	450,000	—	—
John A. Barthrop	—	—	500,000	125,000	—	—
Richard L. Boughrum	—	—	125,000	375,000	—	—
Richard L. Paulsen	—	—	—	—	—	—
James L. Oliver	—	—	500,000	—	—	—

(1) Represents the positive difference between the valuation of $1.92 per share of common stock as of the date the options were exercised and the $0.25 exercise price of the options. There was no market value for the common stock prior to our public listing in July 2004. This valuation was made by our Board of Directors for accounting and financial reporting purposes and does not reflect actual transactions.

(2) Represents the positive difference between the closing price of Commerce's common stock on the American Stock Exchange on July 30, 2004 (the last trading day of fiscal 2004), which was $1.65 per share, and the $0.50 exercise price of the options.

Employment Agreements

Ian B. Carter. Mr. Carter serves as our Chairman and Chief Executive Officer. We entered into an employment agreement with Mr. Carter on January 1, 2000. Mr. Carter's employment agreement was amended on November 1, 2000 and March 15, 2004. The agreement, as amended, provides for Mr. Carter's employment through January 31, 2005 with both Commonwealth and Commerce Energy.

Mr. Carter is currently entitled to a minimum base salary of $500,000. In addition, Mr. Carter is entitled to receive a bonus of $100,000 and any additional discretionary cash bonus based on our results of operations. Mr. Carter's base salary may be increased from time to time by the Board of Directors. Pursuant to his employment agreement, we granted to Mr. Carter an option to purchase 700,000 shares of Common Stock at an exercise price of $2.50 per share, expiring on January 1, 2010, with 300,000 options vested immediately and an additional 100,000 options vesting on each January 1 annually through 2004. Pursuant to his employment agreement, we also granted Mr. Carter additional options to purchase up to 3,500,000 shares of Common Stock, which vest upon satisfaction of the following performance criteria (a) completion of the audit of our July 31, 2000 consolidated financial statements — 500,000 shares; (b) settlement of the California Department of Corporations investigation — 250,000 shares; (c) settlement of the California Public Utilities Commission investigation — 500,000 shares; (d) completion of liquidity event — 750,000 shares; (e) initial public offering stock purchase option — 300,000 shares; and (f) an annual grant of up to 300,000 additional options if we meet or exceed financial performance objectives.

If during the term of the employment agreement, Mr. Carter is terminated, leaves, or is replaced as a result of: (a) all or substantially all of our assets or more than fifty percent (50%) of our issued and outstanding voting shares is acquired by any one person or entity not then affiliated with us; (b) a group of stockholders takes control of us when no significant change of ownership has taken place; or (c) a merger, acquisition, strategic alliance or any other event that could bring substantial capital into us, we must pay Mr. Carter an amount equal to three times Mr. Carter's then-current base salary and the average of the two highest paid bonuses paid to Mr. Carter plus the amount of certain taxes payable by Mr. Carter. In such event, or if the Company terminates the employment agreement early, Mr. Carter has the right to require us to repurchase all of his stock and all stock options referenced in his employment agreement, whether earned or unearned, at a value two times the then aggregate value of our common stock. Mr. Carter waived all change of control provisions of his employment agreement in connection with our recently-completed reorganization.

We may terminate Mr. Carter's employment upon Mr. Carter's death, total disability or for cause. Upon a termination for death or total disability, we will continue to pay Mr. Carter for a period of one year thereafter or until expiration of the term of the employment agreement, whichever occurs first, his then current base salary and bonus. The term "cause" is defined to mean a conviction or entry of plea of guilty or nolo contendere for any felony that would materially and adversely interfere with his ability to perform his services of his employment. In the event of a termination for cause, Mr. Carter is entitled to receive all compensation and benefits payable to him through the date of termination.

Mr. Carter may terminate his employment only upon (a) the sale of all or substantially all of our assets to a person unaffiliated with us or the occurrence of a change of control without Mr. Carter's consent or (b) our material breach of the employment agreement. In case of termination by Mr. Carter due to a change in control without his consent, Mr. Carter is entitled to receive three times the sum of his then current annual base salary and the average of the two highest bonuses paid to him. In the case of termination due to our material breach of contract, Mr. Carter is entitled to receive a payment equal to the monetary value of all of the compensation and benefits payable to him for the remainder of the term. If, at the expiration of the term, we have met or exceeded the projections set forth in the business plan, and we do not offer to extend Mr. Carter's employment on terms no less favorable than those stated in the then current employment agreement, we must pay Mr. Carter a sum of $100,000 per year for a period of ten years. Mr. Carter will consult to us during that period and be Vice-Chairman of the Board.

John A. Barthrop. Mr. Barthrop serves as our Senior Vice President, General Counsel and Secretary. We entered into to an employment agreement with Mr. Barthrop on November 1, 2000. Mr. Barthrop's employment agreement was amended on March 31, 2004. The agreement, as amended, provides for Mr. Barthrop's employment through December 31, 2004 with both Commonwealth and Commerce Energy.

Mr. Barthrop is currently entitled to receive an annual base salary of $240,000 under the terms of his employment agreement, subject to possible increases which the chief executive officer and the compensation committee may grant from time to time. Mr. Barthrop is also entitled to an annual cash bonus of 30% of his

then current annual salary provided that we have met or exceeded the projections in our annual business plan or as the Board of Directors deems appropriate.

In March 2004, we entered into an agreement with Mr. Barthrop to amend his employment agreement. In connection with this amendment, we granted Mr. Barthrop an additional 125,000 stock options at an exercise price of $1.92 per share. The exercise price of the options represents the fair market value of Commonwealth's common stock on the date the options were granted, as determined by the Compensation Committee of Commonwealth's Board of Directors in accordance with Commonwealth's 1999 Equity Incentive Plan. If during the term of the employment agreement, as amended, there is a change of control as defined in the employment agreement that is not hostile, then we will pay Mr. Barthrop a $100,000 cash bonus. A change in control includes any transaction in which any person acquires beneficial ownership of 50% or more of the outstanding shares of Commonwealth or Commerce Energy common stock or 50% of the combines voting power of the outstanding securities entitled to vote generally in the election of directors, or the sale of all or substantially all of the assets of the company. A change of control does not include any transaction or series of transactions that has been approved by the Board. We will not record any compensation expense with respect to Mr. Barthrop's options because they were granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant, $1.92 per share.

The agreement will terminate upon the occurrence of any of the following: Mr. Barthrop's death, total disability, material breach of the employment agreement or fiduciary duty by Mr. Barthrop or written notice of Mr. Barthrop's decision to terminate his employment. Upon termination, Mr. Barthrop will be entitled to receive his base salary and benefits earned through the date of termination and an amount equal to his then current annual base salary.

Peter Weigand. Mr. Weigand serves as the President of Commonwealth and Commerce Energy. We entered into an employment agreement with Mr. Weigand on April 1, 2004. The agreement provides for an initial three year term and is automatically extended for successive one year periods unless we or Mr. Weigand provide notice of termination. Mr. Weigand is entitled to a base salary of $400,000, which shall be reviewed at least annually by the Board or the Compensation Committee and may be further increased (but not decreased). Mr. Weigand is eligible to participate in our bonus program at the discretion of the Board on the same basis and terms as are applicable to other senior executives. Pursuant to his employment agreement, we granted to Mr. Weigand an option to purchase 600,000 shares of Common Stock at an exercised price of $1.92 per share, expiring on March 11, 2014, with 150,000 options vested immediately, 150,000 options vesting on each of March 29, 2005, 2006, and 2007 and immediate vesting upon termination of Mr. Weigand's employment without cause, for good reason, as defined in the employment agreement, or follow a change of control not approved by the Board, provided that in each case Mr. Weigand agrees not to engage in certain prohibited competitive activities for six months following the termination of employment.

If we terminate Mr. Weigand's employment without cause, or if Mr. Weigand resigns within six months after a change in control, or he resigns for good reason and he agrees not to compete with us for six months, then he will be entitled to a severance payment equal to his salary for the greater of one year or the number of months remaining in the term of his employment and all of his options and restricted stock grants shall immediately vest. A change of control includes any transaction in which any person acquires beneficial ownership of 50% or more of the outstanding shares of Commonwealth or Commerce Energy common stock or 50% of the combined voting power of the outstanding securities entitled to vote generally in the election of directors, or the sale of all or substantially all of the assets of the company. A change of control does not include any transaction or series of transactions that has been approved by the Board.

We may terminate Mr. Weigand's employment upon death, total disability, or for cause. Upon a termination, for death or total disability, we will continue to pay Mr. Weigand through the date of termination of his employment. "Cause" includes acts of fraud or embezzlement, a knowing and willful unauthorized disclosure of confidential information, conviction or entry of plea of guilty or nolo contendere for a felony or crime involving fraud, dishonesty, or moral turpitude. In the event of a termination for cause, Mr. Weigand is entitled to receive all compensation and benefits payable to him through the date of termination.

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Richard L. Boughrum. Mr. Boughrum serves as the Vice President and Chief Financial Officer of Commonwealth and Commerce Energy. We entered into an employment agreement with Mr. Boughrum on April 1, 2004. The agreement provides for an initial three year term and is automatically extended for successive one year periods unless we or Mr. Boughrum provide notice of termination. Mr. Boughrum is entitled to a base salary of $350,000, which shall be reviewed at least annually by the Board or the Compensation Committee and may be further increased (but not decreased). Mr. Boughrum is eligible to participate in our bonus program at the discretion of the Board on the same basis and terms as are applicable to other senior executives. Pursuant to his employment agreement, Mr. Boughrum has the right to purchase up to 150,000 shares of our common stock for a purchase price of $1.92 per share at any time until 10 days after consummation of the reorganization. Mr. Boughrum exercised this option on April 2, 2004. We also granted to Mr. Boughrum an option to purchase 500,000 shares of common stock at an exercised price of $1.92 per share expiring in March 2014, with 125,000 vested immediately, 125,000 options vesting on each of March 29, 2005, 2006 and 2007 and immediate vesting upon termination of Mr. Boughrum's employment without cause, for good reason or following a change of control not approved by the Board, provided that in each case Mr. Boughrum agrees not to engage in certain prohibited competitive activities for six months following the termination of employment. We also granted Mr. Boughrum a restricted stock award of 250,000 shares of common stock, which are subject to repurchase by the Company at $0.001 per share upon termination of Mr. Boughrum's employment. Commonwealth's repurchase right terminates with respect to 50,000 shares per year on each of the next three anniversaries of his hire date and also terminates immediately upon termination of Mr. Boughrum's employment without cause for good reason, as defined in the employment agreement, or following a change of control not approved by the Board, provided that in each case Mr. Boughrum agrees not to engage in certain prohibited competitive activities for six months following the termination of employment.

If we terminate Mr. Boughrum's employment without cause, or if Mr. Boughrum resigns within six months after a change in control, or he resigns for good reason and he agrees not to compete with us for six months, then he will be entitled to a severance payment equal to his salary for the greater of one year or the number of months remaining in the term of his employment and all of his options and restricted stock grants shall immediately vest. A change of control includes any transaction in which any person acquires beneficial ownership of 50% or more of the outstanding shares of Commonwealth or Commerce Energy common stock or 50% of the combines voting power of the outstanding securities entitled to vote generally in the election of directors, or the sale of all or substantially all of the assets of the company. A change of control does not include any transaction or series of transactions that has been approved by the Board.

We may terminate Mr. Boughrum's employment upon death, total disability, or for cause. Upon a termination, for death or total disability, we will continue to pay Mr. Boughrum through the date of termination of his employment. "Cause" includes acts of fraud or embezzlement, a knowing and willful unauthorized disclosure of confidential information, conviction or entry of plea of guilty or nolo contendere for a felony or crime involving fraud, dishonesty, or moral turpitude. In the event of a termination for cause, Mr. Boughrum is entitled to receive all compensation and benefits payable to him through the date of termination.

Richard L. Paulsen. Richard L. Paulsen resigned his position as our Chief Operating Officer, effective March 16, 2004, to pursue other opportunities. Mr. Paulsen executed a confidential severance agreement and general release in connection with his resignation and the termination of his employment. Pursuant to the terms of such agreement, we paid Mr. Paulsen $1,600,875, less required tax deductions. Pursuant to the terms of the agreement, we repurchased the 500 shares of our common stock held by Mr. Paulsen and all 899,500 of Mr. Paulsen's options to purchase shares of Commonwealth's common stock were cancelled.

James L. Oliver. James L. Oliver resigned his position as Commonwealth's Chief Financial Officer, effective February 20, 2004, to pursue other opportunities. Mr. Oliver executed a confidential severance agreement and general release in connection with his resignation and the termination of his employment. Pursuant to the terms of such agreement, we paid Mr. Oliver $72,000, less required tax deductions, and will continue to pay Mr. Oliver an amount equal to his former salary until August 2005. Mr. Oliver continues to

held a fully vested option to purchase 500,000 shares of Commonwealth's common stock with an exercise price of $2.75 per share and a final expiration date of November 1, 2007.

Compensation Committee Interlocks and Insider Participation

Executive compensation is determined by a Compensation Committee elected by our Board of Directors. The Compensation Committee is currently comprised of Robert C. Perkins, Craig G. Goodman and Mark S. Juergensen. None of the current Compensation Committee members are or has been an officer or employee of the Company. None of our executive officers serve as members of the Board of Directors or compensation committee of any entity that has one or more executive officers who serve on our Board of Directors or the Compensation Committee.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

The following table contains certain information as of November 11, 2004 regarding all persons who were the beneficial owners of more than 5% of the outstanding shares of Common Stock, each of our directors, each nominee for election to become a director, each of the Named Executive Officers and all directors and executive officers as a group. The persons named hold sole voting and investment power with respect to the shares shown opposite their respective names, unless otherwise indicated. The information with respect to each person specified is as supplied or confirmed by such person, based upon statements filed with the Securities and Exchange Commission, or based upon our actual knowledge.

	Common Stock		
	Amount and Nature of Beneficial Ownership(1)		
Name	Number of Shares Owned(2)	Right to Acquire(3)	Percent of Class(1)(2)(3)
Principal Stockholders:			
Ian B. Carter	150,000	3,050,000	9.5%
Directors and Named Executive Officers:			
Ian B. Carter	150,000	3,050,000	9.5%
Craig G. Goodman	2,100	150,000	*
Robert C. Perkins	177,000	350,000	1.7%
Mark S. Juergensen	—	37,500	*
John A. Barthrop	50,000	625,000	2.2%
James L. Oliver	—	500,000	1.6%
Peter Weigand	1,088,679	150,000	4.0%
Richard L. Boughrum	300,000	125,000	1.4%
Richard L. Paulsen	—	—	*
All Directors and Executive Officers as a group (7 persons)	1,767,779	4,487,500	17.9%

* Indicates beneficial ownership of less than 1% of the issued and outstanding class of securities.

(1) Subject to applicable community property and similar statutes.

(2) Includes shares beneficially owned, whether directly or indirectly, individually or together with associates.

(3) Represents shares of our common stock issuable upon exercise of stock options or upon conversion of other convertible securities held by such persons that are exercisable within 60 days of November 11, 2004.

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quity Compensation Plan Information

Our 1999 Equity Incentive Plan, or the Plan, has been approved by our stockholders. We do not have any equity compensation plans other an the 1999 Equity Incentive Plan approved by our stockholders, with the exception of one-time grants of warrants or options made by the r Board of Directors from time to time.

The following table sets forth information regarding the number of shares of our common stock that may be issued pursuant to our equity mpensation plans or arrangements as of the end of fiscal 2004.

	(a)	(b)	(c)
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity compensation plans approved by security holders	5,687,399(1)	$2.13	1,312,501(2)
quity compensation plans not approved by security holders	4,620,000(3)	$2.41	—
Total	10,307,399	$2.26	1,312,501

(1) Represents shares of common stock that may be issued pursuant to outstanding options granted under the Commonwealth 1999 Equity Incentive Plan.

(2) Represents shares of common stock that may be issued pursuant to options available for future grant under the Commonwealth 1999 Equity Incentive Plan.

(3) Represents stock options granted by our Board of Directors to various employees, directors and consultants pursuant to stand-alone agreements.

tem 13. ***Certain Relationships and Related Transactions.***

On April 1, 2004, we acquired Skipping Stone Inc., an energy consulting and technology firm. Skipping Stone was a privately held ompany that was principally owned by Peter Weigand. Mr. Weigand, who was the Chief Executive Officer of Skipping Stone prior to its acquisition by Commonwealth, became the President of Commonwealth, Commerce Energy and Skipping Stone on April 1, 2004. Prior to its acquisition of Skipping Stone, since 2001, Commonwealth has engaged Skipping Stone to perform various consulting services. The consulting ervices were performed by various employees and independent contractors of Skipping Stone, including Peter Weigand and Richard L. oughrum, who was an independent contractor of Skipping Stone until March 28, 2004. On April 1, 2004, Mr. Boughrum became the Chief Financial Officer of Commonwealth and Commerce Energy. Consulting services performed by Skipping Stone for Commonwealth have ncluded data collection and analysis of market size information, review of energy supply and finance agreements, development of business lans, work plans and definitions of various strategic initiatives and representation of Commonwealth in the implementation of such initiatives. The agreements to perform consulting services were terminable by either party at any time. At the time of the completion of the merger, the only on-going consulting services being performed by Skipping Stone for Commonwealth relate to Commonwealth's preparations in onnection with its upcoming required report on internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 002. Commonwealth paid Skipping Stone an aggregate of approximately $308,000 in consulting fees and expenses through the acquisition date. Approximately 1% and less than 1% of Skipping Stone's revenues in calendar 2001 and 2002, respectively, were derived from consulting fees paid by Commonwealth. Through March 31, 2004, approximately 23% of Skipping Stone's calendar 2004 revenues had been derived from onsulting fees paid by Commonwealth.

The aggregate purchase price for all of the outstanding Skipping Stone securities, which consists of common stock and vested options, was 3.1 million and the assumption of $0.6 million of debt. The purchase

price was paid through the issuance of Commonwealth common stock, which was valued at $1.92 per share. Mr. Weigand received 1,088,679 shares of Commonwealth common stock in the transaction. In addition, other former holders of Skipping Stone common stock received an aggregate of 525,891 shares of Commonwealth common stock in the transaction.

We granted the former holders of Skipping Stone common stock "piggy-back" registration rights with respect to the 1,468,714 shares of common stock issued to them in the merger. Pursuant to a registration rights agreement dated as of April 1, 2004, we agreed to register such shares for resale under the Securities Act in any registration statement filed by Commonwealth with the Securities and Exchange Commission with respect to an offering by Commonwealth for its own account (other than a registration statement on Form S-4 or S-8 or any successor thereto) or for the account of any Commonwealth stockholder. We will pay all of the expenses of such registration. We also agreed to indemnify and hold harmless each of the former holders of Skipping Stone common stock from and against any liabilities (including attorney fees) arising out of any untrue statement of a material fact contained in any such registration statement, other than with respect to information provided by such stockholders for inclusion in the registration statement. Our obligation to register these shares will terminate only when such shares have been disposed of pursuant to an effective Registration Statement, in the opinion of counsel to Commonwealth, the entire amount of the shares may be sold in a single sale without any limitation as to volume pursuant to Rule 144 (or any successor provision then in effect) under the Securities Act, or the shares are sold or distributed by a person not entitled to these registration rights.

Each of the former holders of Skipping Stone common stock, including Mr. Weigand, has agreed to place 20% of the Commonwealth shares issued to him in the merger in an escrow for a period of six months. The stockholder escrow shares are subject to forfeiture, at $1.92 per share, based upon a two part "true up" calculation, which is defined in the merger agreement. The first part of the calculation is designed to cover a decline in the value of Skipping Stone's net equity, defined as the difference between the total assets minus the total liabilities, from December 31, 2003 to April 1, 2004, the effective time of the merger. The second part of the calculation will verify that as of six months from the effective time all assets have been collected, amortized or realized as cash and no other liabilities have been accrued or paid by Skipping Stone or Commonwealth after the effective time.

In addition, each of the former holders of Skipping Stone common stock, including Mr. Weigand, has agreed to place an additional 10% of the Commonwealth shares issued to him in the merger in an escrow for a period of eighteen months, in the case of Mr. Weigand, and twelve months, in the case of the other three former holders of Skipping Stone common stock. The retention escrow shares are subject to forfeiture in the event that such person voluntarily resigns his employment with Commonwealth, Commerce Energy or any of their affiliates after the reorganization during the escrow period (but not upon death, disability or certain changes in control not approved by the Board). In connection with the merger, Mr. Weigand also entered into an Agreement Not to Compete for twelve months after he is no longer employed by Commonwealth, Commerce or any of their affiliates, except under the circumstance of a change in control not approved by Board of Commonwealth or Commerce.

Item 14. ***Principal Accounting Fees and Services.***

The following table sets forth the fees billed and paid to us by Ernst & Young LLP, our independent registered public accounting firm for each of the last two fiscal years.

	Fiscal Year	
	2003	2004
Audit Fees	$326,898	$489,420
Audit-Related Fees	—	22,472
Tax Fees	130,263	172,446
All Other Fees	22,594	—
	$479,755	$684,338

Audit Fees: This category includes the audit of our annual consolidated financial statements, the review of financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for those fiscal years, including the filing of our Form S-4 in fiscal 2004.

Audit Related Fees: This category consists of assurance and related services provided by Ernst & Young LLP that were reasonably related to the performance of the audit or review of our financial statements and which are not reported above under "Audit Fees." Ernst & Young LLP did not bill the Company for any audit-related services for fiscal 2003.

Tax Fees. This category consists of professional services rendered by Ernst & Young LLP for tax services, including tax compliance, tax advice and tax planning.

All Other Fees. This category consists of fees for other advisory services.

The Audit Committee of our Board of Directors has established a practice that requires the Committee to pre-approve any audit or permitted non-audit services to be provided to us by our independent registered public accounting firm, Ernst & Young LLP, in advance of such services being provided to us.

In fiscal 2003 and 2004, all of the tax related fees and the fees included in the category "All Other Fees" were pre-approved by the Audit Committee. Under the SEC rules, subject to certain de minimis criteria, pre-approval is required for all professional services rendered by our principal accountant for all services rendered on or after May 6, 2003. We are in compliance with these SEC rules.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a)(1) *Index to Consolidated Financial Statements:*

(a)(2) *Financial Statement Schedules*

All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(b) *Exhibits.* The exhibits listed below are herby filed with the Commission as part of this Annual Report on Form 10-K. The Company will furnish a copy of any exhibit upon request, but a reasonable fee will be charged to cover the Company's expenses in furnishing such exhibit.

Exhibit Number	Title of Exhibit
2.1	Agreement and Plan of Reorganization, by and among American Energy Group, Inc.., CEC Acquisition Corp. and Commonwealth Energy Corporation, previously filed with the Commission on July 6, 2004 as Exhibit 2.1 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
2.2	Agreement and Plan of Merger by and among Commonwealth Energy Corporation, Skipping Stone Acquisition Corporation, Skipping Stone Inc. and the holders of Skipping Stone Inc. common stock dated March 29, 2004, previously filed with the Commission on April 5, 2004 as Exhibit 2.2 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
3.1	Amended and Restated Certificate of Incorporation of Commerce Energy Group, Inc., previously filed with the Commission on July 6, 2004 as Exhibit 3.3 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
3.2	Certificate of Designation of Series A Junior Participating Preferred Stock of Commerce Energy Group, Inc. dated July 1, 2004, previously filed with the Commission on July 6, 2004 as Exhibit 3.4 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
3.3	Amended and Restated Bylaws of Commerce Energy Group, Inc., previously filed with the Commission on July 6, 2004 as Exhibit 3.6 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
4.1	Rights Agreement, dated as of July 1, 2004, entered into between Commerce Energy Group, Inc. and Computershare Trust Company, as rights agent. Rights Agreement, dated as of July 1, 2004, entered into between Commerce Energy Group, Inc. and Computershare Trust Company, as rights agent, previously filed with the Commission on July 6, 2004 as Exhibit 10.1 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
4.2	Form of Rights Certificate, previously filed with the Commission on July 6, 2004 as Exhibit 10.2 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.

Exhibit Number	Title of Exhibit
Material Contracts Relating to Management Compensation Plans or Arrangements	
10.1	Employment Agreement dated January 1, 2000, between Commonwealth Energy Corporation and Ian B. Carter, as modified by an Addendum to Employment Agreement dated as of November 1, 2000, previously filed with the Commission on August 9, 2001 as Exhibit 10.12 to Commonwealth Energy Corporation's Registration Statement on Form 10, which is incorporated herein by reference.
10.2	Consent and Waiver Agreement dated March 12, 2004 between Commonwealth Energy Corporation and Ian B. Carter, previously filed with the Commission on March 16, 2004 as Exhibit 10.1 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the period ended January 31, 2004, which is incorporated herein by reference.
10.3	Second Amendment to Employment Agreement dated March 16, 2004 between Commonwealth Energy Corporation and Ian B. Carter, previously filed with the Commission on March 16, 2004 as Exhibit 10.2 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the period ended January 31, 2004, which is incorporated herein by reference.
10.4	Employment Agreement dated November 1, 2000, between Commonwealth Energy Corporation and John A. Barthrop, previously filed with the Commission on November 14, 2001 as Exhibit 10.15 to Amendment No. 1 to Commonwealth Energy Corporation's Registration Statement on Form 10/ A, which is incorporated herein by reference.
10.5	Amendment to Employment Agreement dated March 31, 2004 between Commonwealth Energy Corporation and John A. Barthrop, previously filed with the Commission on April 5, 2004 as Exhibit 10.5 to Amendment No. 3 to Commerce Energy Group's Registration Statement on Form S-4, which is incorporated herein by reference.
10.6	Executive Employment Agreement dated April 1, 2004 between Commonwealth Energy Corporation, Commerce Energy Group, Inc. and Peter Weigand, previously filed with the Commission on April 5, 2004 as Exhibit 10.6 to Amendment No. 3 to Commerce Energy Group's Registrant's Statement on Form S-4, which is incorporated herein by reference.
10.7	Executive Employment Agreement dated April 1, 2004 between Commonwealth Energy Corporation, Commerce Energy Group, Inc. and Richard L. Boughrum, previously filed with the Commission on April 5, 2004 as Exhibit 10.7 to Amendment No. 3 to Commerce Energy Group's Registrant's Statement on Form S-4, which is incorporated herein by reference.
10.8	Commonwealth Energy Corporation 1999 Equity Incentive Plan, previously filed with the Commission on October 8, 2003 as Exhibit 4.1 to Commonwealth Energy Corporation's Registration Statement on Form S-8, which is incorporated herein by reference.
10.9	Form of Stock Option Agreement pursuant to Commonwealth Energy Corporation 1999 Equity Incentive Plan.
10.10	Confidential Severance Agreement and General Release between Richard L. Paulsen and Commonwealth Energy Corporation, previously filed with the Commission on April 5, 2004 as Exhibit 10.1 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2004, which is incorporated herein by reference.
10.11	Confidential Severance Agreement and General Release dated as of February 21, 2004 between James L. Oliver and Commonwealth Energy Corporation, previously filed with the Commission on March 16, 2004 as Exhibit 10.3 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2004, which is incorporated herein by reference.
10.12	Settlement Agreement and Release dated as of August 29, 2003 between Robert C. Perkins and Commonwealth Energy Corporation.
10.13	Stock Option Agreement dated as of August 29, 2003 between Robert C. Perkins and Commonwealth Energy Corporation.
10.14	Stock Option Agreement dated as of August 29, 2003 between Robert C. Perkins and Commonwealth Energy Corporation.
10.15	Stock Option Agreement dated as of July 8, 1999 between Ian B. Carter and Commonwealth Energy Corporation.

Exhibit Number	Title of Exhibit
10.16	Indemnification Agreement dated as of January 1, 2000 between Commonwealth Energy Corporation and Ian B. Carter, with Schedule attached thereto of other substantially identical Indemnification Agreements, which differ only in the respects set forth in such Schedule.
10.17	Indemnification Agreement dated as of July 1, 2004 between Commerce Energy Group, Inc. and Ian Carter, with Schedule attached thereto of other substantially identical Indemnification Agreements, which differ only in the respects set forth in such Schedule.
Other Material Contracts	
10.18	Skipping Stone Stockholder Escrow Agreement by and among Commonwealth Energy Corporation, Skipping Stone Inc. and the holders of Skipping Stone Inc. common stock, previously filed with the Commission on April 5, 2004 as Exhibit 2.3 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.19	Retention Escrow Agreement by and among Commonwealth Energy Corporation, Skipping Stone Inc., Peter Weigand, Greg Lander, Eric Alam and Bruno Kvetinskas, previously filed with the Commission on April 5, 2004 as Exhibit 2.4 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.20	Registration Rights Agreement by and among Commonwealth Energy Corporation and the holders of Skipping Stone, Inc. common stock dated March 29, 2004, previously filed with the Commission on April 5, 2004 as Exhibit 2.5 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.21	Agreement Not To Compete by and among Commonwealth Energy Corporation, Commerce Energy Group, Inc. and Peter Weigand dated April 1, 2004, previously filed with the Commission on April 5, 2004 as Exhibit 2.6 to Amendment No. 3 Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.22	Limited Liability Company Agreement of Summit Energy Ventures, LLC, as amended by the First Amendment to the Limited Liability Company Agreement of Summit Energy Ventures, LLC, dated August 2001, previously filed with the Commission on November 14, 2001 as Exhibit 10.6 to Amendment No. 1 to Commonwealth Energy Corporation's Registration Statement on Form 10/ A, which is incorporated herein by reference.
10.23	Second Amendment to the Limited Liability Company Agreement of Summit Energy Ventures, LLC, previously filed with the Commission on April 3, 2002 as Exhibit 10.19 to Amendment No. 2 to Commonwealth Energy Corporation's Registration Statement on Form 10/ A, which is incorporated herein by reference.
10.24	Lease Agreement dated August 9, 2002, between Commonwealth Energy Corporation and Cherry Tree Investors, L.P. , previously filed with the Commission on October 29, 2002 as Exhibit 10.25 to Commonwealth Energy Corporation's Annual Report on Form 10-K for the year ended July 31, 2002, which is incorporated herein by reference.
10.25	Consent to Sublease and Sublease Agreement dated May 28, 2004 between E*Trade Consumer Finance Corporation and Commonwealth Energy Corporation.
10.26	Restructuring and Termination of Membership Agreement dated as of April 30, 2004 by and among Summit Energy Ventures, LLC, Commonwealth Energy Corporation, Steven Strasser and Northwest Power Management, Inc., previously filed with the Commission on June 14, 2004 as Exhibit 10.5 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2004, which is incorporated herein by reference.
10.27	Confirmation of Transaction between Commonwealth Energy Corporation and DTE Energy Trading, Inc. dated July 25, 2002, previously filed with the Commission on March 17, 2004 as Exhibit 10.23 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K for the year ended July 31, 2002, which is incorporated herein by reference.
10.28	Exelon Generation Company, LLC Confirmation Agreement dated July 22, 2003, previously filed with the Commission on March 17, 2004, as Exhibit 10.20 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.

Exhibit Number	Title of Exhibit
10.29	Exelon Generation Company, LLC Confirmation Agreement dated July 22,2003, previously filed with the Commission on March 17, 2004 as Exhibit 10.21 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.30	Confirmation of Transaction between Commonwealth Energy Corporation and DTE Trading, Inc. dated March 24, 2003, previously filed with the Commission on March 17, 2004 as Exhibit 10.22 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.31	Confirmation of Transaction between Commonwealth Energy Corporation and DTE Trading, Inc. dated July 24, 2003, previously filed with the Commission on March 17, 2004 as Exhibit 10.23 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.32	Revised Security Agreement dated October 27, 2004 by and between Commonwealth Energy Corporation and DTE Energy Trading.
10.33	Revised Operating Agreement dated October 27, 2004 between DTE Energy Trading, Inc. and Commonwealth Energy Corporation.
14.1	Commerce Energy Group, Inc. Code of Business Conduct and Ethics.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young, LLP, independent registered public accounting firm.
31.1	Principal Executive Officer Certification required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Chief Financial Officer Certification required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCE ENERGY GROUP, INC.

By: /s/ PETER WEIGAND

Peter Weigand
President

Dated: November 15, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PETER WEIGAND Peter Weigand	President and a Director (Principal Executive Officer)	November 15, 2004
/s/ RICHARD L. BOUGHRUM Richard L. Boughrum	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	November 15, 2004
/s/ KENNETH L. ROBINSON Kenneth L. Robinson	Vice President, Finance and Corporate Controller (Principal Accounting Officer)	November 15, 2004
Ian B. Carter	Chairman of the Board, Chief Executive Officer and a Director	
/s/ CRAIG G. GOODMAN Craig G. Goodman	Director	November 15, 2004
/s/ MARK S. JUERGENSEN Mark S. Juergensen	Director	November 15, 2004
/s/ ROBERT C. PERKINS Robert C. Perkins	Director	November 15, 2004

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Commerce Energy Group, Inc.

We have audited the accompanying consolidated balance sheets of Commerce Energy Group, Inc. (formerly Commonwealth Energy Corporation) as of July 31, 2003 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Energy Group, Inc. at July 31, 2003 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Orange County, California
October 22, 2004

COMMERCE ENERGY GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Fiscal Year Ended July 31,		
	2002	2003	2004
Net revenue	$117,768	$165,526	$210,623
Direct energy costs	87,340	128,179	191,180
Gross profit	30,428	37,347	19,443
Selling and marketing expenses	3,510	4,240	4,063
General and administrative expenses	16,737	18,492	25,857
Reorganization and initial public listing expenses	—	—	3,393
Income (loss) from operations	10,181	14,615	(13,870)
Other income and expenses:			
Initial formation litigation expenses	(1,671)	(4,415)	(1,562)
Provision for impairment on investments	—	—	(7,135)
Loss on termination of Summit	—	—	(1,904)
Loss on equity investments	(160)	(567)	—
Minority interest share of loss	—	187	1,185
Interest income, net	939	715	549
Total other income and expenses	(892)	(4,080)	(8,867)
Income (loss) before provision for (benefit from) income taxes	9,289	10,535	(22,737)
Provision for (benefit from) income taxes	4,125	5,113	(1,017)
Net income (loss)	$ 5,164	$ 5,422	$ (21,720)
Earnings (loss) per common share:			
Basic	$ 0.19	$ 0.19	$ (0.77)
Diluted	$ 0.16	$ 0.18	$ (0.77)

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCE ENERGY GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	July 31, 2003	July 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,921	$ 54,065
Accounts receivable, net	37,861	31,119
Income taxes refund receivables	—	4,423
Deferred income tax assets	2,772	74
Prepaid expenses and other current assets	6,920	5,141
Total current assets	88,474	94,822
Restricted cash and cash equivalents	20,773	4,008
Deposits	4,207	5,445
Investments	5,362	96
Property and equipment, net	2,984	2,613
Goodwill and other intangible assets	4,070	3,839
Total assets	$125,870	$110,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,936	$ 30,576
Accrued liabilities	7,127	6,141
Total current liabilities	32,063	36,717
Deferred income tax liabilities	187	—
Minority interest	603	—
Commitments and contingencies	—	—
Stockholders' equity:		
Commonwealth Energy Corporation:		
Series A convertible preferred stock — 10,000 shares authorized with no par value; 609 shares issued and outstanding in fiscal 2003 and none in fiscal 2004	700	—
Other convertible preferred stock — 352 shares reflected as outstanding in fiscal 2003 and none in fiscal 2004	155	—
Common stock — 50,000 shares authorized with no par value; 27,645 shares issued and outstanding in fiscal 2003 and none in fiscal 2004	56,853	—
Commerce Energy Group, Inc.:		
Series A junior participating preferred stock — 20,000 shares authorized with $0.001 par value; none issued and outstanding	—	—
Common stock — 150,000 shares authorized with $0.001 par value; none issued in fiscal 2003 and 30,519 shares issued and outstanding in fiscal 2004	—	60,796
Unearned restricted stock compensation	—	(256)
Retained earnings	35,309	13,566
Total stockholders' equity	93,017	74,106
Total liabilities and stockholders' equity	$125,870	$110,823

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCE ENERGY GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Commonwealth Energy Corporation						Commerce Energy Group, Inc.				
	Commonwealth Common Stock		Series A Convertible Preferred Stock		Other Convertible Preferred Stock		Commerce Common Stock		Unearned Restricted Stock Compensation	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at July 31, 2001	29,360	$ 60,305	863	$ 842	—	$ —	—	$ —	$ —	$ 24,890	$ 86,037
Exercise of stock options	65	27	—	—	—	—	—	—	—	—	27
Compensation charge related to settlement of employee stock option disputes	—	2	—	—	—	—	—	—	—	—	2
Compensation charge related to performance-based stock options	—	(743)	—	—	—	—	—	—	—	—	(743)
Repurchase of founder's shares	(1,175)	(2,400)	—	—	—	—	—	—	—	—	(2,400)
Cancellation and return of founder's accommodation shares	(828)	—	—	—	—	—	—	—	—	—	—
Income tax benefits arising from exercise of stock options	—	(43)	—	—	—	—	—	—	—	—	(43)
Cumulative unpaid dividends on convertible preferred stock	—	—	—	70	—	—	—	—	—	(70)	—
Payment of dividends on preferred stock	—	—	—	(30)	—	—	—	—	—	—	(30)
Repurchase of preferred stock	(88)	—	(88)	(62)	—	—	—	—	—	—	(62)
Net income and comprehensive income	—	—	—	—	—	—	—	—	—	5,164	5,164
Balance at July 31, 2002	27,334	57,148	775	820	—	—	—	—	—	29,984	87,952
Exercise of stock options	483	15	—	—	—	—	—	—	—	—	15
Cancellation of common shares	(6)	(14)	—	—	—	—	—	—	—	—	(14)
Income tax benefits arising from exercise of stock options	—	363	—	—	—	—	—	—	—	—	363
Reversal of income tax benefit due to expiration of stock options	—	(659)	—	—	—	—	—	—	—	—	(659)
Cumulative unpaid dividends on convertible preferred stock	—	—	—	55	—	42	—	—	—	(97)	—
Payment of dividends on Series A convertible preferred stock	—	—	—	(92)	—	—	—	—	—	—	(92)
Reflection of — Other convertible preferred stock	—	—	—	—	352	113	—	—	—	—	113
Cancellation of Series A convertible preferred stock	(166)	—	(166)	(83)	—	—	—	—	—	—	(83)
Net income and comprehensive income	—	—	—	—	—	—	—	—	—	5,422	5,422
Balance at July 31, 2003	27,645	56,853	609	700	352	155	—	—	—	35,309	93,017
Exercise of stock options	102	27	—	—	—	—	—	—	—	—	27
Issuance of stock in connection with Skipping Stone acquisition	1,614	3,100	—	—	—	—	—	—	—	—	3,100
Issuance of stock	219	344	—	—	40	10	—	—	—	—	354
Compensation charge related to settlement of disputes	—	636	—	—	—	—	—	—	—	—	636
Repurchase of dissenter's rights stock	(604)	(1,159)	—	—	—	—	—	—	—	—	(1,159)
Issuance of restricted stock	150	288	—	—	—	—	—	—	(288)	—	—
Amortization of unearned restricted stock	—	—	—	—	—	—	—	—	32	—	32
Cumulative unpaid dividends on convertible preferred stock	—	—	—	17	—	6	—	—	—	(23)	—
Payment of dividends on preferred stock	—	—	—	(108)	—	(73)	—	—	—	—	(181)
Conversion of preferred stock into common stock	1,393	707	(609)	(609)	(392)	(98)	—	—	—	—	—
Conversion of Commonwealth Energy Corporation common stock into Commerce Energy Group, Inc. common stock	(30,519)	(60,796)	—	—	—	—	30,519	60,796	—	—	—
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	—	(21,720)	(21,720)

Balance at July 31, 2004	—	$ —	—	$ —	—	$ —	30,519	$60,796	$(256)	$ 13,566	$ 74,106

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCE ENERGY GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended July 31,		
	2002	2003	2004
Cash Flows From Operating Activities			
Net income (loss)	$ 5,164	$ 5,422	$(21,720)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,309	1,461	1,531
Amortization	53	238	419
Provision for doubtful accounts	2,313	1,709	2,217
Stock-based compensation charge (reversal)	(743)	—	668
Tax benefit (provision) from exercise of stock options	(43)	363	—
Reversal of income tax benefit due to expiration of stock options	—	(659)	—
Deferred income tax provision	5,310	1,384	2,698
Impairment of Summit Energy investments	—	—	9,569
Termination of Summit Energy	—	—	1,904
Loss on equity investments	160	9	—
Minority interest share of loss of consolidated entity	—	603	140
Changes in operating assets and liabilities:			
Accounts receivable, net	(7,121)	(18,231)	4,985
Prepaid expenses and other assets	185	(4,368)	(5,681)
Accounts payable	419	14,872	4,659
Accrued liabilities and other	(3,378)	2,820	(1,076)
Net cash provided by operating activities	3,628	5,623	313
Cash Flows From Investing Activities			
Purchase of property and equipment	(1,615)	(438)	(1,079)
Purchase of intangible assets	(178)	(126)	—
Business acquisition, net of cash required	—	—	(43)
Acquisition of majority ownership in PEC, net of cash	—	(580)	—
Summit Energy investments	(7,612)	(344)	—
Net cash used in investing activities	(9,405)	(1,488)	(1,122)
Cash Flows From Financing Activities			
Repayments of line of credit	(3,888)	—	—
Repurchase of common stock	(2,400)	(14)	(1,159)
Sale of common stock	—	—	288
Repurchase or cancellation of Series A convertible preferred stock	(63)	(83)	—
Dividends paid on convertible preferred stock	(30)	(92)	(181)
Reflection of Other convertible preferred stock	—	113	10
Net cash used in settlement of employee stock option dispute	2	—	—
Proceeds from exercises of stock options	27	15	27
Decrease (increase) in restricted cash and cash equivalents	14,057	(6,195)	14,968
Net cash provided by (used in) financing activities	7,705	(6,256)	13,953
Increase (decrease) in cash and cash equivalents	1,928	(2,121)	13,144
Cash and cash equivalents at beginning of year	41,114	43,042	40,921
Cash and cash equivalents at end of year	$43,042	$ 40,921	$ 54,065
Cash paid for:			
Interest	$ 370	$ 18	$ 4
Income taxes	—	3,405	3,404

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share and per kWh amounts)

1. Nature of Business

Commerce Energy Group, Inc. ("Commerce Energy" or "Commerce") is a diversified energy services company. Commerce Energy provides retail electric power to its residential, commercial, industrial and institutional customers, provide consulting and technology services to energy-related businesses and provide energy transaction data management services. Commerce Energy is a holding company that operates through its wholly-owned operating subsidiaries: Commonwealth Energy Corporation, doing business as *electricAmerica* ("Commonwealth Energy" or "Commonwealth"), Skipping Stone Inc. ("Skipping Stone"), and UtiliHost, Inc. ("UtiliHost"). As used in this Report, the term, the Company refers to Commerce Energy Group and its wholly-owned subsidiaries.

Commerce operates through its three wholly-owned subsidiaries: Commonwealth Energy, Skipping Stone and UtiliHost. Commonwealth Energy provides electric power to its residential, commercial, industrial and institutional customers in the deregulated California, Pennsylvania, Michigan and New Jersey electricity markets under the brand name *electricAmerica*. Commonwealth is licensed by the Federal Energy Regulatory Commission, or FERC, as a power marketer. In addition to the states in which Commonwealth currently operate, Commonwealth is also licensed to supply retail electric power by applicable state agencies in New York, Maryland, Texas and Ohio. Skipping Stone, which the Company acquired in April 2004, provides energy-related consulting services and technologies to utilities, generators, pipelines, wholesale merchants, and investment banks (See Note 15). UtiliHost provides managed back office services and energy transaction data management services to Commonwealth Energy.

Commerce Energy Group's predecessor, Commonwealth Energy, was formed in California in August 1997. On July 6, 2004, Commonwealth reorganized into a holding company structure, whereby Commonwealth became a wholly-owned subsidiary of Commerce Energy and the stockholders of Commonwealth became stockholders of Commerce. As a result of the reorganization, each share of Commonwealth common stock was exchanged for one share of Commerce common stock, and Commonwealth stock options became Commerce stock options. (See Note 12).

Immediately prior to consummation of the reorganization, Commonwealth transferred ownership of the following four subsidiaries to Commerce Energy: Skipping Stone Inc., *electricAmerica, Inc.*, UtiliHost, Inc., and electric.com, Inc. As a result of the transfer, these entities became subsidiaries of Commerce Energy. Commonwealth also contributed its TACT (Trans-Action Control Technology) and TRIUMPH (Total Resource Internet Utility Management Power Host) proprietary software products that the Company has developed to provide outsourced services to its retail customers and certain other assets related to outsourcing services to UtiliHost, a wholly-owned subsidiary of Commerce Energy.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The Company's consolidated financial statements include its three wholly-owned subsidiaries: Commonwealth, Skipping Stone and UtiliHost. All material intercompany balances and transactions have been eliminated in consolidation. As of July 31, 2004, UtiliHost did not have separate financial statements or third party customers.

In fiscal 2003, the Company's consolidated financial statements included the accounts of its controlled investment in Summit Energy Ventures, LLC ("Summit"), and its majority ownership in Power Efficiency Corporation ("PEC"). In fiscal 2004, the Company terminated its relationship with Summit and its investment in PEC decreased to 39.9%, therefore, neither entity was consolidated as of July 31, 2004. (See Note 9).

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

Use of Estimates and Assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts and timing of revenue and expenses, the reported amounts and classification of assets and liabilities, and the disclosure of contingent assets and liabilities. These estimates and assumptions are based on the Company's historical experience as well as management's future expectations. As a result, actual results could differ from management's estimates and assumptions. The Company's management believes that its most critical estimates herein relate to independent system operator costs, allowance for doubtful accounts, unbilled receivables and loss contingencies, particularly those associated with litigation.

Reclassifications

The Company has reclassified certain prior fiscal year amounts in the accompanying consolidated financial statements to be consistent with the current fiscal year's presentation.

Non-cash items

In fiscal 2004, the Company recorded a non-cash provision for impairment of investments of $7,135 and a non-cash loss on termination of Summit of $257. In the third quarter of fiscal 2004, the Company acquired Skipping Stone for the Company's common stock of $3,100 in a non-cash transaction. In the fourth quarter of fiscal 2004, the Company issued 65 shares of common stock and 40 shares of other convertible preferred stock on a non-cash settlement and in connection to the reorganization, all outstanding Commonwealth Energy Corporation Series A convertible preferred stock, other convertible preferred stock and common stock was converted one for one into the Company's common stock as a non-cash transaction.

Revenue and Cost Recognition

Energy sales are recognized as the electric power is delivered to customers. Green power credits were recognized upon the fulfillment by the Company of all related obligations.

Direct energy costs, which are recognized concurrent with related energy sales, include the aggregated cost of purchased electric power, fees incurred from various energy-related service providers, and energy-related taxes that cannot be passed directly through to the customer. Independent system operator ("ISO") fees are not determinable until the ISO completes a settlement process for each day's activities. Pending such settlements, the Company estimates and accrues for these ISO fees based on activity levels, preliminary settlements and other related information.

The Company's net revenue is comprised of the following:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Retail energy sales	$ 96,960	$153,430	$205,028
Excess energy sales	18,757	6,496	5,595
Green power credits	2,051	5,600	—
Net revenue	$117,768	$165,526	$210,623

Skipping Stone revenue for the fiscal year ended July 31, 2004 was $803, representing less than 1% of total net revenue.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

Green power credits represented regular green power credit payments in fiscal 2002 and the recovery from the reinstatement by the State of California Public Purpose Program in fiscal 2003, to provide incentives to suppliers of renewable power to reduce the cost of such power to certain customers. This green power credit program was discontinued after March 2003.

Major Customers

No individual customer accounted for ten percent or more of the Company's consolidated net revenue in fiscal 2002, 2003, or 2004.

Operating Expenses

Selling and marketing expenses principally consist of costs incurred for sales and marketing personnel and promotional and advertising activities. Advertising costs are expensed as incurred and were $129, $92 and $326 for fiscal 2002, 2003 and 2004, respectively.

General and administrative expenses principally consist of costs incurred for all other corporate personnel, rent, utilities, telecommunications, insurance, legal fees, and other corporate costs, including provisions made for uncollectible accounts receivable, the depreciation and amortization of tangible and intangible assets and stock-based compensation (see below for details regarding stock-based compensation charges). General and administrative expenses for fiscal 2004 also contain approximately $1,920 of severance costs to former executive officers of the Company.

In fiscal 2004, the Company decided to reclassify certain expenses related to the reorganization of the Company into a Delaware holding company structure and initial public listing of Commerce's common stock on the American Stock Exchange ("reorganization and initial public listing expenses") to a separately identified category within selling, general and administrative expense category. Also, the Company has reclassified certain non-operating litigation expenses related to capital-raising initiatives of prior management during the initial formation of the company ("initial formation expenses") from general and administrative expenses to other income and expenses.

Earnings (Loss) Per Common Share

Earnings (loss) per common share — Basic has been computed by dividing net income (loss) available to common stockholders, after any preferred stock dividends, by the weighted average number of common shares outstanding during the fiscal year. Earnings (loss) per common share — Diluted has been computed by giving additional effect in the denominator to the dilution that would have occurred, under the treasury stock and if-converted methods, as applicable, had outstanding stock options, stock purchase warrants and convertible debt been exercised or converted into additional common shares. For the fiscal year ended July 31, 2004, assumed exercises or conversions have been excluded in computing the diluted earnings (loss) per share since there were net losses for the fiscal year and their inclusion would be anti-dilutive.

Stock-Based Compensation

As allowed by Statement of Financial Accounting Standards ("SFAS") No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation", the Company has elected to retain the compensation measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and its related interpretations for stock options issued to employees and outside directors. Under APB No. 25, compensation cost is recognized at the measurement date for the amount, if any, that the fair value of the Company's common stock exceeds the option exercise price. The measurement date is the date at which both the number of options and the exercise price for each option are known. The Company

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

recognized stock-based compensation credits of $743 in fiscal 2002, no stock-based compensation in fiscal 2003 and stock-based compensation costs of $636 in fiscal 2004.

In December 2002, the Financial Accounting Standards Board ("FASB") amended the transition and disclosure requirements of SFAS No. 123 through the issuance of SFAS No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation — Transition and Disclosure". SFAS No. 148 amends the existing disclosures to make more frequent and prominent disclosure of stock-based compensation expense beginning with financial statements for fiscal years ending after December 15, 2002. The Company has adopted the disclosure provisions of SFAS No. 148.

If the Company had accounted for its stock-based employee and outside directors compensation under the minimum fair value recognition and measurement principles of SFAS No. 123, the Company's reported net income amounts would have been adjusted to the pro forma net income amounts presented below:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Net income (loss) as reported	$5,164	$5,422	$(21,720)
Add: Stock-based employee compensation expense included in net income (loss), net of related tax effects	(445)	—	636
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(382)	(382)	(1,222)
Pro forma net income (loss)	$4,337	$5,040	$(22,306)
Earnings (loss) per share:			
Basic — as reported	$ 0.19	$ 0.19	$ (0.77)
Basic — pro forma	$ 0.16	$ 0.18	$ (0.79)
Diluted — as reported	$ 0.16	$ 0.18	$ (0.77)
Diluted — pro forma	$ 0.14	$ 0.17	$ (0.79)

The fair value of each option grant was estimated on the date of grant using the minimum value method with the following weighted average assumptions:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Weighted-average risk-free interest rate	6.0%	4.0%	4.9%
Average expected life in years	4.1	4.7	6.0
Expected dividends	None	None	None

The Company does not include volatility as there was not an active market for the Company's stock until July 8, 2004, on which date, the Company's common stock was listed on the American Stock Exchange under the symbol "EGR." The estimated fair values for stock options granted during fiscal 2002, 2003 and 2004 were $1.86, $1.86 and $1.92, respectively.

Cash and Cash Equivalents

Cash equivalents consist primarily of investments in highly rated and insured liquid debt instruments with interest reset dates of three months or less. The Company maintains its cash and cash equivalents with highly rated financial institutions, thereby minimizing any associated credit risks.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

Accounts Receivable

The Company's accounts receivable consist of billed and unbilled receivables from customers. The Company's customers are billed monthly at various dates throughout the month. Unbilled receivables represent the amount of electric power delivered to customers as of the end of the period, but not yet billed. Unbilled receivables from sales are estimated by the Company to be the number of kilowatt-hours ("kWh") delivered but not yet billed, multiplied by the current customer average sales price per kWh.

Credit Risk and Allowance for Doubtful Accounts

The Company's exposure to credit risk concentration is limited to those local utilities that collect and remit receivables, on a daily basis, from the Company's individually insignificant and geographically dispersed customers within the states of California, Pennsylvania, Michigan and New Jersey. The Company regularly monitors the financial condition of each such local utility and currently believes that its susceptibility to any individually significant write-offs as a result of concentrations of customer accounts receivable with those local utilities is remote.

The Company maintains an allowance for doubtful accounts, which represents management's best estimate of probable losses inherent in the accounts receivable balance. Management determines the allowance based on known troubled accounts, historical experience, account aging and other currently available evidence (see Note 7).

Deferred Income Taxes

Deferred income tax assets and liabilities are recognized for the expected future income tax benefits or consequences, based on enacted laws, of temporary timing differences between tax and financial statement reporting. During the current fiscal year, the Company established a valuation allowance to reserve its net deferred tax assets, less possible tax refunds, because management believes it is not certain that the Company will realize the tax benefits in the foreseeable future.

Restricted Cash, Cash Equivalents and Energy Deposits

Cash and cash equivalents which the Company currently cannot access, as they are pledged as collateral for electricity commodity purchase obligations, are reported as restricted. The Company also has energy deposits pledged as collateral for electricity commodity purchase obligations.

Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs which do not extend the useful life of the related property or equipment are charged to operations as incurred. Depreciation of property and equipment has been computed using the straight-line method over estimated economic useful lives of five to ten years.

Certain software development costs incurred on significant projects for internal use, primarily consisting of third-party system development costs incurred during the application development stage, are capitalized. These capitalized costs, once placed in service, are amortized using the straight-line method over estimated economic useful lives of three to five years.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

Goodwill

Goodwill represents the excess of the acquisition cost over the net assets acquired from Skipping Stone at the end of fiscal 2004 and was $587. The goodwill associated with Summit's majority ownership in PEC was recorded as goodwill of $3,007 at the end of fiscal 2003 and none at the end of fiscal 2004.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized, but is subject to periodic impairment tests. For the goodwill related to the Skipping Stone acquisition, the Company retained an independent outside firm to value the intangible assets associated with Skipping Stone, and the resulting goodwill will be assessed for impairment on an annual basis on the anniversary of the acquisition date, April 1. Goodwill related to PEC was assessed for impairment on a quarterly basis, with the resulting reductions charged to expense in results of operations.

Intangible Assets

Direct costs incurred in acquiring intangible assets have been capitalized. Intangible assets represent the Company's 1-800-Electric telephone number, rights to internet domain names, a covenant not to compete and in fiscal 2004, Skipping Stone's customer list, software and website resulting from its acquisition. Each intangible asset is being or has been amortized over the shorter of its contractual or estimated economic useful life, which collectively range from two to 20 years. At July 31, 2004, the gross carrying amount of intangible assets was $4,023, with accumulated amortization totaling $771. Aggregate amortization expense for these intangible assets was $53, $238 and $376 for fiscal 2002, 2003 and 2004, respectively.

Impairment of Long-Lived Assets

Management evaluates each of the Company's long-lived assets for impairment by comparing the related estimated future cash flows, on an undiscounted basis, to its net book value. If impairment is indicated, the net book value is reduced to an amount equal to the estimated future cash flows, on an appropriately discounted basis.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, and accounts payable. The carrying amounts of these financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to approximate their fair values due to their short-term nature.

Segment Reporting

The Company's chief operating decision makers consist of members of senior management that work together to allocate resources to, and assess the performance of, the Company's business. These members of senior management currently manage the Company's business, assesses its performance, and allocates its resources as a single operating segment. Although, we acquired Skipping Stone in fiscal 2004, Skipping Stone revenue accounts for less than 1% of total net revenue, and geographic information is not material.

Normal Purchases and Sales Accounting

In fiscal 2004, the Company purchased substantially all of its power under long-term forward physical delivery contracts for supply to its retail electricity customers under long–term and full requirements sales contracts. The Company applied the normal purchase, normal sale accounting treatment to its forward purchase supply contracts and its customer sales contracts. Accordingly, the Company recorded revenue generated from its sales contracts as energy is delivered to its retail customers, and direct energy costs are

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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recorded when the energy under its long-term forward physical delivery contracts is delivered. During fiscal 2004, the Company also used financial hedging, or derivative instruments, to hedge its commodity risks to a limited degree. At July 31, 2004, the Company had no positions derivative instruments.

Recent Accounting Standards

In October 2004, the FASB concluded that SFAS No. 123R, "Share-Based Payment", which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies except small business issuer as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. The Company will adopt SFAS No. 123R on July 1, 2005 and does not believe the adoption will have a material impact on its consolidated financial statements.

Market and Regulatory

California

The 1996 California Assembly Bill ("AB") 1890 codified the restructuring of the California electric industry and provided for the right of direct access ("DA"). DA allowed electricity customers to buy their power from a supplier other than the electric distribution utilities beginning January 1, 1998. On April 1, 1998, the Company began supplying customers in California with electricity as an Electric Service Provider ("ESP").

The California Public Utility Commission ("CPUC") issued a ruling on September 20, 2001 suspending direct access. The suspension permitted the Company to keep current customers and to solicit DA customers served by other providers, but prohibited the Company from soliciting new non-DA customers for an indefinite period of time.

In July 2002, the CPUC authorized Southern California Edison ("SCE") to implement a Historical Procurement Charge ("HPC"), to repay debt incurred during the energy crisis. This amount is currently being collected by SCE as a $0.01 per kilowatt-hour ("kWh") surcharge on the retail electricity bill paid by the Company's customers. SCE estimates that full payment could be achieved as soon as early 2006. While HPC does not directly impact the Company's rate design or revenue, it may affect the Company's ability to retain existing customers or compete for new customers.

Senate Bill 1078, signed by the governor on September 12, 2002, established a Renewable Portfolio Standard program that requires retail sellers of electricity to increase the renewable energy content of their electricity deliveries, from sources such as small hydro, biomass, geothermal resources, and municipal solid waste conversion technologies. Retail sellers must meet a target of 20 percent renewable content in their electricity portfolio by December 31, 2017. Due to the slow ramp-up of this program, additional costs to the Company are not expected to be significant in the near future.

Effective January 1, 2003, the CPUC authorized the electric distribution utilities to charge certain DA customers a surcharge to cover state power contract costs. The Direct Access Customer Responsibility Surcharge ("DA CRS") is currently fixed at $0.027 per kWh. DA CRS is only assessed to those DA customers who enrolled in DA on or after February 1, 2001. In the SCE service territory, the $0.027 DA CRS includes the $0.01 HPC. Those customers enrolled in DA prior to February 1, 2001, in the SCE service territory continue to pay only the $0.01 HPC. While this charge does not directly impact the Company's rate design or revenue, it may affect the Company's ability to retain existing customers or compete for new customers.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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In December 2003, Pacific Gas and Electric ("PG&E") and the CPUC reached a settlement in the PG&E bankruptcy. In February 2004, the CPUC approved a rate settlement agreement, which reduced overall customer rates in the PG&E service territory. DA bills have generally declined in the PG&E service territory and the lower rates have affected the Company's revenue and profitability.

Currently, four important issues are under review at the CPUC, a Resource Adequacy Requirement, a Renewable Portfolio Standard, Utilities Long Term Procurement Plans and the General Rate Cases of the electric distribution utilities. Additional costs to serve customers in California are anticipated from these proceedings, however, the CPUC decisions will determine the distribution of those costs across all load serving entities and ultimately the Company's financial impact.

In September 2004, AB 2006, which would have impacted DA, was vetoed by the governor. There are no economic impacts to the Company's financial results as a result of that veto.

Pennsylvania

In 1996, the Electricity Generation Customer Choice and Competition Act was passed. The law allowed electric customers to choose among competitive power suppliers beginning with one third of the State's consumers by January 1999, two thirds by January 2000, and all consumers by January 2001. We began serving customers in the Pennsylvania territory in 1999. There are no current rate cases or filings regarding this territory that are anticipated to impact the Company's financial results.

Michigan

The Michigan state legislature passed two acts, the Customer Choice Act and Electricity Reliability Act, signed into law on June 3, 2000. Open access, or Choice, became available to all customers of Michigan electric distribution utilities, beginning January 1, 2002. We began marketing in Michigan's Detroit Edison ("DTE") service territory in September 2002.

In February 2004, the Michigan Public Service Commission ("MPSC") issued an interim order granting partial but immediate rate relief to DTE, the Company's primary electric distribution utility market in Michigan. The order significantly reduced the savings of commercial customers who choose an alternative electric supplier, such as us. These changes have adversely affected the Company's ability to retain some of the Company's existing customers and obtain new customers, primarily among larger commercial customers.

The Michigan Senate has energy restructuring language before it in various bills, supported by the electric distribution utilities, which would negatively impact competition in the Michigan electric market. The proposed changes to the Choice market in Michigan would place additional costs and burdens on competitive electricity suppliers, diminish incentives for customers to switch from the electric distribution utilities, and mandate transition charges for Choice customers. If these bills pass as currently drafted, they may impact the Company's costs and prospects in the Michigan market.

New Jersey

Deregulation activities began in New Jersey in November 1999 when the Board of Public Utilities, or BPU, approved the implementation plan. We began marketing in New Jersey in the Public Service Electric and Gas service territory in December 2003.

The Basic Generation Service is the comparable utility price for small and large commercial accounts and includes a reconciliation charge which can change on a monthly basis. Reconciliation charge fluctuations can affect the Company's ability to remain competitive against the comparable utility pricing.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

4. Interest Income, Net

Interest income, net, is comprised of the following:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Interest income	$1,309	$733	$554
Interest expense	(370)	(18)	(5)
Interest income, net	$ 939	$715	$549

5. Income Taxes

The provision for (benefit from) income taxes consist of the following:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Current income taxes:			
Federal	$(1,768)	$2,900	$(3,623)
State	583	829	95
Total	(1,185)	3,729	(3,528)
Deferred income taxes:			
Federal	$ 4,610	$1,155	$ 1,888
State	700	229	623
Total	5,310	1,384	2,511
Provision for (benefit from) income taxes	$ 4,125	$5,113	$(1,017)

A reconciliation of the federal statutory income tax rates to the Company's effective income tax rates follows:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Federal statutory income tax rate	35.0%	35.0%	(35.0)%
State income taxes, net of federal benefit	9.0	6.4	2.1
Increase (decrease) in valuation allowance	—	(1.7)	24.4
Permanent item — offering costs	—	—	5.8
Expiration of stock options	—	8.3	—
Other	0.4	0.5	(1.8)
Effective income tax rate	44.4%	48.5%	(4.5)%

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

Deferred income taxes were as follows:

	July 31,	
	2003	2004
Deferred income tax assets:		
Stock options	$ 521	$ 677
Reserves and accruals	2,371	938
Net operating loss carryforwards	843	1,368
Allowance for doubtful accounts	620	1,436
Capital losses	—	4,291
Unrealized losses	—	424
Investment in Summit	158	—
Total deferred income tax assets	4,513	9,134
Less valuation allowance	(843)	(6,691)
Total deferred income tax assets, net	3,670	2,443
Deferred tax liabilities:		
Depreciation and amortization	(867)	(596)
State income taxes	(218)	(664)
Acquired intangibles — Skipping Stone	—	(1,109)
Total deferred income tax liabilities	(1,085)	(2,369)
Net deferred income tax asset	$ 2,585	$ 74

During fiscal 2002, the valuation allowance decreased by $23 which reflected the uncertainty of the deferred tax asset related to the net operating loss carryforward, the use of which became limited as described below. During fiscal 2003, the valuation allowance decreased by $155 and reflected the utilization of net operating loss carryforwards for federal income tax purposes.

During the current fiscal year, the Company established a valuation allowance to reserve its deferred tax assets, less possible tax refunds, because management believes it is not certain that the Company will realize the tax benefits in the foreseeable future. The effective increase in the valuation allowance for the fiscal year ended July 31, 2004 was $5,848.

At July 31, 2004, the Company had net operating loss carryforwards of approximately $1,818 and $7,396 for federal and state income tax purposes, respectively, that begin to expire in years 2018 and 2008, respectively. Of these losses, $1,562 of the federal net operating loss carryforwards is subject to an annual limitation due to the change of ownership provision of the Tax Reform Act of 1986. As a result of this annual limitation, a portion of these carryforwards may expire before ultimately becoming available to reduce future income tax liabilities.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

6. Earnings (Loss) Per Common Share

Earnings (loss) per common share have been computed as follows:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Numerator:			
Net income (loss)	$ 5,164	$ 5,422	$(21,720)
Less: Preferred stock dividends	(70)	(97)	—
Income (loss) applicable to common stock — Basic	5,094	5,325	(21,720)
Income impact from assumed conversion of preferred stock	70	97	—
Net income (loss) — Diluted	$ 5,164	$ 5,422	$(21,720)
Denominator:			
Weighted-average outstanding common shares — Basic	27,482	27,424	28,338
Incremental common shares from assumed conversions:			
Stock options	3,258	1,499	—
Series A convertible preferred stock	796	609	—
Other convertible preferred stock	—	704	—
Adjusted weighted-average common shares — Diluted	31,536	30,236	28,338

For fiscal 2002, 2003 and 2004, 6,943, 6,860 and 9,779 common shares attributable to outstanding stock options and warrants were excluded from the calculation of diluted earnings per share because the effect of their inclusion would be anti-dilutive. For fiscal 2004, assumed in-the-money stock option exercises have been excluded in computing the diluted loss per share as there was a net loss. Their inclusion would reduce the loss per share and be anti-dilutive. If the assumed exercises had been used, fully diluted shares outstanding for fiscal 2004 would have been 28,469.

7. Accounts Receivable, Net

Accounts receivable, net, is comprised of the following:

	July 31,	
	2003	2004
Billed	$22,244	$21,777
Unbilled	12,998	12,535
Green power credits	5,600	—
	40,842	34,312
Less allowance for doubtful accounts	(2,981)	(3,193)
Accounts receivable, net	$37,861	$31,119

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

The following schedules set forth the activity in the Company's allowance for doubtful accounts for the reported periods:

	Fiscal Year Ended July 31,		
	2002	2003	2004
Balance, beginning of year	$ 3,946	$ 2,538	$ 2,981
Provisions charged to operations	2,313	1,709	2,589
Write-offs	(3,721)	(1,266)	(2,377)
Balance, end of year	$ 2,538	$ 2,981	$ 3,193

In fiscal 2004, the Company collected $2,234 in past due accounts receivable in the settlement of the PG&E bankruptcy claim that was recorded in net revenue as received. The Company's fiscal 2002 and 2003 allowance for doubtful accounts includes $1,604 to fully reserve for withheld customer remittances due from PG&E which filed for bankruptcy protection in April 2001.

The Company has granted a security interest in its Michigan accounts receivable as security for payment of energy purchases from an affiliate of the local utility.

8. Restricted Cash, Cash Equivalents and Energy Deposits

The Company has cash, cash equivalents and deposits related to outstanding letters of credit or cash deposited as collateral to secure performance under energy purchase contracts as follows:

	July 31,	
	2003	2004
Short-term investments pledged as collateral for letters of credit in connection with agreements for the purchase of electric power	$11,687	$4,008
Short-term investments pledged as collateral for an appeals bond in connection with a litigation award	4,107	—
Cash and cash equivalents of Summit	4,979	—
Total restricted cash and cash equivalents	20,773	4,008
Energy deposits pledged as collateral in connection with agreements for the purchase of electric power	4,051	5,085
Total restricted cash, cash equivalents and energy deposits	$24,824	$9,093

The Company had $15,471 and $3,745 in outstanding letters of credit at July 31, 2003 and 2004, respectively.

9. Investments

In July 2001, the Company initially formed Summit as a vehicle through which it could invest in companies that manufacture or market energy efficiency products. The Company's initial (and only) investment was a $15,000 capital contribution in Summit.

Through April 30, 2004, Summit had investments in three energy related companies. Summit accounted for its investment in Encorp, Inc ("Encorp") (former investee Envenergy, Inc. was acquired by Encorp) and Turbocor B.V. ("Turbocor") under the cost method of accounting, and it's investment in PEC (ticker symbol: PEFF) of 75.8% was consolidated in the Company's consolidated financial statements.

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On April 30, 2004, the Company reached an agreement with its investment manager, Northwest Power Management ("NPM") to terminate its Summit relationship. As a result of the transaction, the Company no longer retains an equity interest or contractual relationship with Summit, and the Company retains and directly owns the investments in the three portfolio companies previously held by Summit. Under the terms of the termination agreement, the Company retains the entire interest in Encorp and Turbocor previously held by Summit, and retains a portion of the interest in PEC that was previously held by Summit and not distributed to NPM in the settlement. The Company no longer consolidates the financial results of PEC in its financial reports due to a reduction in its ownership percentage, from 75.8% to 39.9%, as part of the agreement. The table below displays the activity in these investment accounts for fiscal 2004.

Investee	Investment Basis at July 31, 2003	Capital Contribution/ (Losses)	Provision for Impairment and Distribution	Investment Basis at July 31, 2004	Direct Ownership Percentage at July 31, 2004
Encorp	$2,030	$ —	$(1,934)	$ 96	2.3%
Turbocor	3,332	800	(4,132)	—	9.3%
Subtotal	5,362	800	(6,066)	96	
PEC	2,752	(1,324)	(1,428)	—	39.9%
Total investments	$8,114	$ (524)	$(7,494)	$ 96	

The three investments are all early stage entities incurring operating losses, which are expected to continue, at least in the near term. They each have very limited working capital and as a result, continuing operations will be dependent upon their securing additional financing to meet their immediate capital needs. The Company has no obligation, and currently no intention of investing additional funds into these companies. In fiscal 2004, to reflect the impairment of these investments, the Company recorded provisions for impairment of $7,135 to reflect its percentage ownership in the net equity of each of these companies and a loss of $1,904 to reflect the settlement of the termination of Summit.

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The condensed balance sheet information for Summit, which was consolidated in the Company's financial statements at July 31, 2003, is as follows:

	July 31, 2003
ASSETS:	
Cash and cash equivalents	$ 4,979
Prepaid expenses	403
Inventory	407
Investments	5,362
Property and equipment, net	95
Goodwill	3,007
Other assets	186
Total assets	$14,439
LIABILITIES:	
Accounts payable and accrued liabilities	$ 665
Notes payable — short-term	431
Total liabilities	1,096
Minority Interest	603
Owners' Equity	12,740
Liabilities and Owners' Equity	$14,439

Summit, since its inception in fiscal 2001, had been consolidated into the Company's financial statements as the Company exercises, or had the ability to exercise legal, financial and operational control. The effects of Summit's results of operations on the Company's consolidated results of operations were net losses of $803, $1,472 and $1,304 for fiscal 2002, 2003 and 2004, respectively. Due to the Summit termination, the Company no longer consolidates Summit in its operating results.

10. Property and Equipment, Net

Property and equipment, net, is comprised of the following:

	July 31,	
	2003	2004
Information technology equipment and systems	$ 5,848	$ 7,131
Office furniture and equipment	1,667	1,468
Renewable energy assets	76	499
Leasehold improvements	144	257
	7,735	9,355
Less: accumulated depreciation and amortization	(4,751)	(6,742)
Property and equipment, net	$ 2,984	$ 2,613

Included in fiscal 2004 is Skipping Stone property and equipment, net of accumulated depreciation, totaling $138.

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11. Accrued Liabilities

Current accrued liabilities are comprised of the following:

	July 31, 2003	July 31, 2004
Litigation damages payable	$2,738	$ 763
Energy taxes payable	1,330	1,688
Accrued energy payable	618	580
Accrued payroll and benefits	786	691
Accrued bonuses	495	—
Accrued legal expenses	318	919
Notes payable	431	—
Other	411	1,500
Total accrued liabilities	$7,127	$6,141

12. Stockholders' Equity

Series A Convertible Preferred Stock

In July 2004, the Company declared and paid cash dividends at the rate of 10% per annum through July 6, 2004. A total of $108, or $0.18 per share, was paid. After dividends were paid, all 609 shares of Series A convertible preferred stock were converted on a one for one basis to Commerce common stock as previously elected.

Other Convertible Preferred Stock

In July 2004, the Company declared and paid cash dividends at the rate of 12% to 14% per annum through July 6, 2004. A total of $74, or $0.19 per share, was paid. After dividends were paid, all 392 shares of Other convertible preferred stock were converted on a two for one basis to Commerce common stock as previously elected.

Restricted Stock

In April 2004, pursuant to the terms of an employment agreement, the Company granted 150 shares of restricted common stock to its Chief Financial Officer which vests equally over the first three anniversary dates of employment, beginning April 1, 2005. The Company recorded $288 of deferred stock-based compensation as a result of the restricted stock grant. Total compensation cost recognized through fiscal year ended July 31, 2004 for this stock-based employee compensation award was $32.

Common Stock

All sales of Commonwealth's common stock were made through private placements prior to July 6, 2004. On July 6, 2004, Commonwealth reorganized into a holding company structure, whereby Commonwealth became a wholly-owned subsidiary of Commerce Energy and the stockholders of Commonwealth became stockholders of Commerce. As a result of the reorganization, (a) each issued and outstanding share of common stock of Commonwealth was exchanged, subject to exercise of dissenters' rights by the Commonwealth's stockholders, for a share of Common Stock, par value $0.001 per share, of Commerce Energy ("Commerce Common Stock") and a right to purchase (each, a "Right") one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, of Commerce ("Junior Participat-

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ing Preferred") and (b) Commerce assumed the Commonwealth's 1999 Equity Incentive Plan (the "Plan"), all outstanding obligations to issue common stock under the Plan and all outstanding stock options issued outside the Plan. The stockholders of Commerce hold the same relative ercentage of Commerce common stock as they owned of Commonwealth common stock immediately prior to the reorganization, subject to e exercise of dissenters rights.

In July 2004, as part of the reorganization, the Company repurchased 604 shares of common stock for $1,159 from former stockholders of ommonwealth, under the exercise of California law dissenter's rights.

Prior to July 8, 2004, there was no established public trading market for any class of Commerce Energy's or Commonwealth's equity curities. On July 8, 2004, Commerce's common stock began trading on the American Stock Exchange under the symbol "EGR."

At July 31, 2004, the Company has reserved 10,307 shares of its common stock for potential exercise of outstanding stock options.

Commerce Rights Plan

The Board of Directors of Commerce has approved the adoption of a preferred share purchase rights plan dated July 1, 2004. Each right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, at a price of $20 per one one-hundredth of a preferred share, subject to adjustment. The description and terms of the ghts are set forth in a rights agreement entered into between the Company and Computershare Trust Company, as rights agent, dated July 1, 004 (the "Rights Agreement"). Until a right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company by virtue of such right, including, without limitation, the right to vote or to receive dividends.

Each one one-hundredth of a share of Series A Junior Participating Preferred Stock has designations and powers, preferences and rights, and the qualifications, limitations and restrictions which make its value approximately equal to the value of one share of Common Stock. The Series A Junior Participating Preferred Stock purchasable upon exercise of the rights will not be redeemable. The Series A Junior Participating referred Stock rank junior to any other series of the Company's preferred stock. Each share of Series A Junior Participating Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of $1.00, but will be entitled to an aggregate dividend of 100 times the dividend declared per share of Common Stock. In the event of liquidation, the holders of the Series A Junior Participating Preferred Stock would be entitled to a minimum preferential liquidation payment of $20 per share (plus an amount equal to accrued but unpaid dividends), but would be entitled to receive an aggregate payment equal to 100 times the payment made per share of Common Stock. Each share of Series A Junior Participating Preferred Stock will have 100 votes, voting together with the Common Stock. These rights are protected by customary anti-dilution provisions.

The rights will expire on July 1, 2014, unless they are earlier redeemed or exchanged by the Company, in each case, as described below. The exercise of rights for Series A Junior Participating Preferred Stock is at all times subject to the availability of a sufficient number of uthorized but unissued Series A Junior Participating Preferred Stock. The rights are not exercisable until the distribution date, which will ccur on the earlier of:

(i) the date of a public announcement that a person, entity or group of affiliated or associated persons have acquired beneficial ownership of 15% or more of the outstanding Common Stock after the effective date of the reorganization, subject to certain exceptions set forth in the rights agreement; or

(ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or entity becomes the beneficial owner of 15% or more of the outstanding

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Common Stock) following the commencement of, or announcement of an intention to commence, a tender offer or exchange offer, the consummation of which would result in any person or entity becoming the beneficial owner of 15% or more of the outstanding Common Stock.

Notwithstanding anything to the contrary, none of the provisions of the Rights Agreement will be triggered by Ian B. Carter's beneficial ownership of the Company's securities unless such ownership exceeds 30% of the outstanding Common Stock.

Until the distribution date, or earlier redemption or expiration of the rights, (i) the rights will be evidenced by the stock certificates representing the Common Stock, (ii) no separate right certificates will be distributed and (iii) the rights will be transferable with and only with the Common Stock, (iv) Common Stock certificates will contain a notation incorporating the rights agreement by reference and (v) the surrender or transfer of any certificates for Common Stock, even without such notation or a copy of the summary of rights being attached thereto, will also constitute the transfer of the rights associated with the common stock represented by such certificate. As soon as practicable following the distribution date, separate certificates evidencing the rights will be mailed to holders of record of the Common Stock as of the close of business on the distribution date and such separate right certificates alone will evidence the rights.

The purchase price payable, and the number of Series A Junior Participating Preferred Stock or other securities or other property issuable upon exercise of the rights are subject to adjustment from time to time to prevent dilution. With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in such purchase price. No fractional shares will be issued and in lieu thereof, an adjustment in cash will be made based on the market price of the shares on the last trading day prior to the date of exercise.

In the event that any person or group of affiliated or associated persons becomes the beneficial owner of 15% or more of the outstanding Common Stock, proper provision shall be made so that each holder of a right, other than rights beneficially owned by such acquiring person and its associates and affiliates (which will thereafter be void), will for a 60-day period (or such longer period as necessary to register the Company's securities) have the right to receive upon exercise that number of shares of Common Stock having a market value equal to two times the exercise price of the right (or, if such number of shares are not and cannot be authorized, the Company may issue cash, debt, other securities or a combination thereof in exchange for the rights).

In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provision will be made so that each holder of a right will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the right, that number of shares of common stock of the acquiring company which at the time of such transaction have a market value equal to two times the exercise price of the right.

At any time after a person or a group of affiliated or associated persons becomes the beneficial owner of 15% or more of the outstanding Common Stock and prior to the acquisition by such person or a group of affiliated or associated persons of 50% or more of the outstanding Common Stock, the Board of Directors of the Company may exchange the rights (other than rights owned by such person or a group of affiliated or associated persons which shall have become void), in whole or in part, at an exchange ratio of one share of Common Stock per right (or, at the election of the Company, the Company may issue cash, debt, stock or a combination thereof in exchange for the Rights), subject to adjustment. Finally, in the event of any merger, consolidation or other transaction in which Common Stock is exchanged, each share of Series A Junior Participating Preferred Stock will be entitled to receive 100 times the amount of consideration received per share of Common Stock.

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At any time prior to the earliest of (i) the day that a person or a group of affiliated or associated persons has become the beneficial owner of 15% or more of the outstanding Common Stock, or (ii) July 1, 2014, the Board of Directors of the Company may redeem the rights in whole, but not in part, at a price of $0.001 per right. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

The terms of the Rights may be amended by the Board of Directors of the Company without the consent of the holders of the rights, except that from and after such time as the rights are distributed no such amendment may adversely affect the interest of the holders of the rights, excluding the interests of an acquiring person.

Commonwealth Rights Plan

In January 2002, Commonwealth adopted a Shareholder Rights Plan (the "Commonwealth Rights Plan"). In connection with the reorganization, all of the rights under the Commonwealth Rights Plan were acquired by Commerce Energy.

13. Stock Options and Warrants

Stock options granted after December 1999 will expire in December 2004 through 2010. As of July 31, 2004, 10,307 stock options remained unexercised and outstanding.

The Company's 1999 Equity Incentive Plan ("Plan"), which was approved by the Company's stockholders, provides for the granting of up to an aggregate of 7,000 common shares. In addition, the Company's Board of Directors has from time to time made individual grants of warrants or options outside the Plan. At July 31, 2004, the Company had 5,587 and 4,620 stock options unexercised and outstanding that were granted under and outside the Plan, respectively.

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Stock option activity is set forth below:

	Options Outstanding			
	Number of Shares	Exercise Price Per Share	Weighted-Average Exercise Price	Weighted-Average Fair Value of Common Stock
Balance at July 31, 2001	10,283	$0.01 – $3.75	$1.79	
Options granted:				
Other employees(1)	5	1.00 – 3.75	2.22	$3.13
Employee performance-based(2)	300	2.50	2.50	$2.38
Options exercised	(52)	0.01 – 1.00	0.50	
Options cancelled	(46)	0.05 – 3.75	1.04	
Balance at July 31, 2002	10,490	0.01 – 3.75	1.82	
Options granted:				
Employee performance-based	300	2.50	2.50	$2.50
Other employees(2)	325	1.86 – 3.05	1.93	$1.86
Options exercised	(482)	0.01 – 1.00	0.03	
Options cancelled	(403)	2.50 – 2.75	2.50	
Options expired	(2,541)	0.01 – 1.00	0.22	
Balance at July 31, 2003	7,689	0.25 – 3.75	2.55	
Options granted:				
Other(3)	3,981	0.05 – 3.75	1.86	$1.94
Options exercised	(102)	0.05 – 2.75	0.26	
Options cancelled	(899)	2.75	2.75	
Options expired	(362)	1.00 – 3.75	2.81	
Balance at July 31, 2004	10,307	$0.05 – $3.75	$2.26	

(1) Options with exercise prices less than the fair value of the Company's common stock at respective dates of grant.

(2) Options with exercise prices equal to the fair value of the Company's common stock at respective dates of grant.

(3) Options of 447 were granted with exercise prices less than, options of 2,934 were granted with exercise prices equal to, and options of 600 were granted with exercise prices greater than, the fair value of the Company's common stock at respective dates of grant.

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The weighted average characteristics of stock options outstanding as of July 31, 2004 were as follows:

Range of Exercise Prices	Number of Shares Outstanding	Average Remaining Contractual Life (Years)	Shares Exercisable	Weighted Average Exercise Price
$0.05 – $0.50	341	1.4	341	$0.18
$1.00 – $1.92	3,544	8.9	1,707	1.86
$2.50 – $3.75	6,422	4.6	5,161	2.58
Total	10,307	5.9	7,209	$2.26

Stock Options Granted to the Company's Chairman and Chief Executive Officer and Related Stock-Based Compensation

As part of an employment agreement with a term expiring January 31, 2005, the Company has granted 4,200 stock options to the Company's Chairman and Chief Executive Officer which have an exercise price of $2.50 per share and expire on January 1, 2010. As of January 1, 2000, 300 of the options were vested and 100 options vest annually on January 1 of each year from 2001 through 2004, for a total of 700. The remaining 3,500 options are performance-based and vest upon the occurrence of certain events as detailed below. The Company's Chairman and Chief Executive Officer also has 100 non-employment agreement stock options which have an exercise price of $0.50 per share and expire on December 31, 2004.

Performance criteria which were met as of July 31, 2004, the number of related stock options vested and those not earned, and stock-based compensation recognized during the year ended July 31, 2002 are as follows (no stock-based compensation was recognized in the years ended July 31, 2003 and 2004, as the exercise price of the stock options was above the current fair market value of the Company's common stock):

	Number of Options		
	Earned and Vested	Not Earned and Unvested	Stock-Based Compensation Recognized in Fiscal 2002
Completion of the audit of the Company's July 31, 2000 consolidated financial statements	500	—	$ —
Settlement of the California Department of Corporations investigation	250	—	—
Settlement of the California Public Utilities Commission investigation	500	—	—
Completion of liquidity event	—	750	(413)
Initial public offering stock purchase option	—	300	(165)
Meeting the Company's business plans for 2000	100	200	—
Exceeding the Company's business plans by 10% or more for 2001	300	—	(165)
Exceeding the Company's business plans by 10% or more for 2002	300	—	—
Exceeding the Company's business plans by 10% or more for 2003	300	—	—
	2,250	1,250	$(743)

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If during the term of the employment agreement, the Company makes a public offering of its shares or if the Company supports any other form of liquidity event, then all stock options related to this employment agreement, whether earned or not, shall be considered vested concurrent with such event.

The employment agreement also provides that in the event the Company terminates the agreement early or a change in control of the Company occurs, the Company's Chairman and Chief Executive Officer has the right to require the Company to repurchase all of his capital stock and stock options, then earned or to be earned, at a repurchase price equal to two times the then value of the Company's common stock.

14. Commitments and Contingencies

Commitments

Purchase Commitments

The Company has entered into a series of electricity supply contracts to purchase electricity covering approximately 74% of the customers' load servicing requirements for fiscal 2005 based on the Company's forecast. The following is a summary of the Company's commitments to purchase electric power by state as of July 31, 2004:

	Fiscal Years Ending		
	2005	2006	Total
California	$34,290	$ 9,006	$ 43,296
Pennsylvania and New Jersey	41,496	18,729	60,225
Total	$75,786	$27,735	$103,521

For the Michigan market, the Company has entered into several forward energy supply contracts with a major electric power generator to purchase the full requirements service product to service the Company's customer load. These full requirement service contracts include energy and all scheduling costs. These contracts require the generator to sell the Company power; however, the Company is not required to take delivery.

As the price at which the Company can purchase electric power is fixed during the terms of the contracts, if the price at which the Company can resell this electric power falls below the contract purchase price plus ancillary and scheduling costs, the Company would incur operating losses during such periods.

Operating Leases

The Company leases its facilities as well as certain equipment under operating leases. Certain of these operating leases are non-cancelable and contain rent escalation clauses relating to any increases to real property taxes and maintenance costs. The Company incurred aggregate rent expense under operating leases of $704, $742, and $931 in fiscal 2002, 2003 and 2004, respectively.

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The future aggregate minimum lease payments under operating lease agreements in existence at July 31, 2004 are as follows:

Fiscal Year Ending July 31,	
2005	$1,240
2006	958
2007	874
2008	859
2009	86
	$4,017

Employment agreements

The Company has four executive employment agreements in existence at July 31, 2004 that provide for future aggregate base salaries as follows:

Fiscal Year Ending July 31,	
2005	$1,100
2006	750
2007	500
	$2,350

Under these agreements, the Company may also be required to pay additional amounts in the event of a change in control and/or upon early termination of employment.

Contingencies

Litigation

In July 2001, the Company filed a Proof of Claim in PG&E's bankruptcy proceedings. In April 2004 and July 2004, the Company received $1,484 and $750, respectively, from PG&E in full settlement of this claim.

On January 15, 2003, the Company filed a complaint in the United States District Court for the Central District of California entitled Commonwealth Energy Corporation v. Wayne Mosley; et al. against several dissident stockholders who the Company believes had illegally solicited proxies in connection with the annual meeting of stockholders on January 21, 2003. On February 6, 2003, the Company filed an amended complaint in this lawsuit asking the court to confirm that its Board of Directors had been legally elected by the stockholders and validating the inspector's determination at the annual meeting that the proxy materials sent by defendants had violated several Securities and Exchange Commission ("SEC") rules and regulations and that the resulting proxies were invalid. On June 10, 2003, the court issued a default judgment against certain defendants, finding 1) the Company properly conducted the election at the Company's annual meeting and the inspector of elections was correct in rejecting the proxies solicited by the group; 2) the inspector of elections counted the votes and proxies properly (and thus the elections results were validated); and 3) the challenged proxies violated various SEC rules and were therefore invalid. Three members of the group, and all persons acting in concert with them, were ordered by the court to comply with all federal securities laws and SEC rules in any future attempts to solicit proxies. However, two additional defendants, who were not subject to the court's earlier ruling, brought a counterclaim against the Company on November 14, 2003 alleging that its Board of Directors was not properly elected at the annual meeting. This action is currently pending and seeks an order voiding the results of the Board of Directors election at the 2003 annual meeting and

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compelling the Company to seat certain other persons whom they allege should have been elected to the Board. No damages are currently being sought by plaintiffs in this case. The Company intends to defend these counter-claims vigorously.

On February 14, 2003, the Company filed a complaint in the Orange County Superior Court against Joseph Ogundiji seeking a judicial declaration invalidating 80 shares of its capital stock Mr. Ogundiji claims to hold. On April 11, 2003, Mr. Ogundiji filed and served an answer and cross-complaint alleging claims against the Company for breach of contract, conversion, declaratory relief, promissory estoppel, unlawful denial of voting rights pursuant to California Corporations Code Section 709, illegal stock dividends in violation of California Corporations Code Section 25120, and unjust enrichment. The cross-complaint seeks an unspecified amount of general and punitive damages. This matter is scheduled for trial on June 20, 2005.

On November 20, 2003, the Company filed a Notice of Appeal in the California Court of Appeal's in Saline v. Commonwealth Energy Corporation. The appealed order was entered after the first of two trial phases and requires Commonwealth to recognize the shares of other convertible preferred stock held by plaintiff, Joseph Saline, a former director, as valid. A second phase of the trial is scheduled for January 18, 2005, Commonwealth recently prevailed on its motion for summary adjudication of Mr. Saline's conversion claim, so only a breach of contract claim remains for trial. Another case brought by Mr. Saline, Saline v. Commonwealth Energy Corporation has been consolidated with this case for trial on January 18, 2005. The remaining claims in the second case are allegations by Commonwealth and/or certain intervenor plaintiffs that Mr. Saline breached his fiduciary duties as a director, libeled the Company, and illegally tape recorded certain board meetings. In this second case, Mr. Saline has appealed the trial court's denial of his motion to strike the libel claims and refusal to award him attorney's fees related to his original claim concerning his access to corporate documents.

On November 25, 2003, several stockholders filed a lawsuit against the Company entitled Coltrain, et al. v. Commonwealth Energy Corporation, et al. The complaint purports to be a class action against the Company for violations of section 709 of the California Corporations Code. The plaintiffs allege that the Company failed to correctly count approximately 39,869 votes cast at the 2003 annual meeting and, as a result, the Board of Directors was not properly elected. Instead, the plaintiffs allege that four different persons would have been seated on the Board had the votes been tabulated in the manner advocated by the plaintiffs. This case involves identical issues of law and fact as the counterclaim discussed above in Commonwealth Energy Corporation v. Wayne Moseley, et al. and is currently pending. Commonwealth recently settled with one of the plaintiffs in this case, Coltrain. Commonwealth is vigorously defending this action.

On April 19, 2004, Mr. Saline and Mr. Ogundiji filed an action in California Superior Court for Orange County, alleging that Commonwealth Energy Corporation's Board of Directors (other than Mr. Saline) breached their fiduciary duties and breached the covenant of good faith and fair dealing by approving and putting to a stockholder vote the recent reorganization plan, which resulted in Commonwealth becoming a wholly-owned subsidiary of Commerce Energy Group, Inc. In addition, they allege that Commonwealth improperly failed to hold an annual meeting within the time limits set by California Corporations Code Section 600, improperly used the reorganization to alter their rights as preferred shareholders, and improperly refused to hold a vote just among preferred stockholders regarding the reorganization. Up to this point in the litigation, Mr. Saline and Mr. Ogundiji have attempted to block the special meeting at which the reorganization was approved, to enjoin the reorganization, to unwind the reorganization and to de-list the shares of common stock of Commerce listed on the AMEX, but were not successful. Because our directors are defendants in this case, pursuant to the terms of the indemnification agreements between Commonwealth and its directors, we are required to indemnify the directors to the fullest extent allowed by law. The indemnification agreement covers any expenses and/or liabilities reasonably incurred in connection with the investigation, defense, settlement or appeal of legal proceedings. The obligation to provide indemnification

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does not apply if the officer or director is found to be liable for fraudulent or criminal conduct. Pursuant to the indemnification agreement, the Company is currently providing a joint defense with the directors in this action. This matter is scheduled for trial in September 12, 2005 and Commonwealth will defend vigorously.

The Company currently is, and from time to time may become, involved in other litigation concerning claims arising out of the Company's operations in the normal course of business. While the Company cannot predict the ultimate outcome of its pending matters or how they will affect the Company's results of operations or financial position, the Company's management currently does not expect any of the legal proceedings to which the Company is currently a party, including the legal proceedings described above, individually or in the aggregate, to have a material adverse effect on the Company's results of operations or financial position.

15. Related Party Transactions

During fiscal 2004, the Company engaged Nexus Advisory to assist in the Company's financial reorganization. The Company paid Nexus Advisory $110 in fiscal 2004 for consulting services. In July 2004, David Barnes, the principal of Nexus Advisory, became the Company's Vice President of Finance and Investor Relations.

In prior fiscal years, the Company utilized Technical Service Group, Inc., doing business as Symcas-TSG ("Symcas") on a limited basis for its IT maintenance. During fiscal 2004, Linda Guckert, the Company's Vice President of Information Technology, terminated her relationship with Symcas and the Company paid Symcas $2,091, $577 and less than $10 in fiscal 2002, 2003 and 2004, respectively.

On April 1, 2004, the Company acquired Skipping Stone Inc., an energy consulting and technology firm. Skipping Stone was a privately held company that was principally owned by Peter Weigand. Mr. Weigand, who was the Chief Executive Officer of Skipping Stone prior to its acquisition by the Company, became the President of Commonwealth, Commerce Energy and Skipping Stone on April 1, 2004. Prior to its acquisition of Skipping Stone, since 2001, Commonwealth has engaged Skipping Stone to perform various consulting services. The consulting services were performed by various employees and independent contractors of Skipping Stone, including Peter Weigand and Richard L. Boughrum, who was an independent contractor of Skipping Stone until March 28, 2004. On April 1, 2004, Mr. Boughrum became the Chief Financial Officer of Commonwealth and Commerce Energy. Consulting services performed by Skipping Stone for Commonwealth have included data collection and analysis of market size information, review of energy supply and finance agreements, development of business plans, work plans and definitions of various strategic initiatives and representation of the Company in the implementation of such initiatives. The agreements to perform consulting services were terminable by either party at any time. At the time of the completion of the merger, the only on-going consulting services being performed by Skipping Stone for Commonwealth relate to Commonwealth's preparations in connection with its upcoming required report on internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Commonwealth has paid Skipping Stone an aggregate of approximately $308 in consulting fees and expenses from March 2002 through the acquisition date. Through March 31, 2004, approximately 23% of Skipping Stone's calendar 2004 revenues had been derived from consulting fees paid by Commonwealth.

The aggregate purchase price for all of the outstanding Skipping Stone securities, which consists of common stock and vested options, was $3.1 million and the assumption of $0.6 million of debt. The purchase price was paid through the issuance of Commonwealth common stock, which was valued at $1.92 per share. Mr. Weigand received 1,088 shares of Commonwealth common stock in the transaction. In addition, other former holders of Skipping Stone common stock received an aggregate of 526 shares of Commonwealth common stock in the transaction.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

The Company granted the former holders of Skipping Stone common stock "piggy-back" registration rights with respect to the 1,468 shares of common stock issued to them in the merger. Pursuant to a registration rights agreement dated as of April 1, 2004, the Company agreed to register such shares for resale under the Securities Act in any registration statement filed by Commonwealth with the Securities and Exchange Commission with respect to an offering by Commonwealth for its own account (other than a registration statement on Form S-4 or S-8 or any successor thereto) or for the account of any Commonwealth stockholder. The Company will pay all of the expenses of such registration. The Company also agreed to indemnify and hold harmless each of the former holders of Skipping Stone common stock from and against any liabilities (including attorney fees) arising out of any untrue statement of a material fact contained in any such registration statement, other than with respect to information provided by such stockholders for inclusion in the registration statement. The Company's obligation to register these shares will terminate only when such shares have been disposed of pursuant to an effective Registration Statement; in the opinion of counsel to Commonwealth, the entire amount of the shares may be sold in a single sale without any limitation as to volume pursuant to Rule 144 (or any successor provision then in effect) under the Securities Act; or the shares are sold or distributed by a person not entitled to these registration rights.

Each of the former holders of Skipping Stone common stock, including Mr. Weigand, has agreed to place 20% of the Commonwealth shares issued to him in the merger in an escrow for a period of six months. The stockholder escrow shares are subject to forfeiture, at $1.92 per share, based upon a two part "true up" calculation, which is defined in the merger agreement. The first part of the calculation is designed to cover a decline in the value of Skipping Stone's net equity, defined as the difference between the total assets minus the total liabilities, from December 31, 2003 to April 1, 2004, the effective time of the merger. The second part of the calculation will verify that as of six months from the effective time all assets have been collected, amortized or realized as cash and no other liabilities have been accrued or paid by Skipping Stone or Commonwealth after the effective time.

In addition, each of the former holders of Skipping Stone common stock, including Mr. Weigand, has agreed to place an additional 10% of the Commonwealth shares issued to him in the merger in an escrow for a period of eighteen months, in the case of Mr. Weigand, and twelve months, in the case of the other three former holders of Skipping Stone common stock. The retention escrow shares are subject to forfeiture in the event that such person voluntarily resigns his employment with Commonwealth, Commerce Energy or any of their affiliates after the reorganization during the escrow period (but not upon death, disability or certain changes in control not approved by the board). In connection with the merger, Mr. Weigand also entered into an Agreement Not to Compete for twelve months after he is no longer employed by Commonwealth, Commerce or any of their affiliates, except under the circumstance of a change in control not approved by Board of Commonwealth or Commerce.

16. Quarterly Financial Information (Unaudited)

In the fourth quarter of fiscal 2004, the Company identified an adjustment of $1,070 to direct energy costs that should, more appropriately, be considered an adjustment in direct energy costs in the second and third fiscal quarters for $292 and $778, respectively, and is reflected below and in the Quarterly Reports on Form 10-Q/A Amendment No. 2 for the quarterly period ended January 31, 2004 and Form 10-Q/A Amendment No. 1 for the quarterly period ended April 30, 2004. The fiscal 2003 quarterly financial information is shown as reported for comparative purposes only.

COMMERCE ENERGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except per share and per kWh amounts)

	October 31	January 31		April 30		July 31	Fiscal Year
		Reported	Adjusted	Reported	Adjusted		
Year ended July 31, 2004:							
Net revenue	$58,396	$47,038	$47,038	$48,521	$48,521	$56,668	$210,623
Direct energy costs	54,075	43,491	43,783	42,021	42,799	50,523	191,180
Gross profit	4,321	3,547	3,255	6,500	5,722	6,145	19,443
Net income (loss)	(1,122)	(7,361)	(7,653)	(4,816)	(5,594)	(7,351)	(21,720)
Net income (loss) per common share:							
Basic	(0.04)	(0.27)	(0.28)	(0.17)	(0.20)	(0.25)	(0.77)
Diluted	(0.04)	(0.27)	(0.28)	(0.17)	(0.20)	(0.25)	(0.77)

	October 31	January 31	April 30	July 31	Fiscal Year
Year ended July 31, 2003:					
Net revenue	$33,682	$31,759	$37,841	$62,244	$165,526
Direct energy costs	26,206	24,569	29,855	47,549	128,179
Gross profit	7,476	7,190	7,986	14,695	37,347
Net income (loss)	(526)	587	1,096	4,265	5,422
Net income (loss) per common share:					
Basic	(0.02)	0.02	0.04	0.15	0.19
Diluted	(0.02)	0.02	0.04	0.14	0.18

EXHIBIT INDEX

Exhibit Number	Title of Exhibit
2.1	Agreement and Plan of Reorganization, by and among American Energy Group, Inc.., CEC Acquisition Corp. and Commonwealth Energy Corporation, previously filed with the Commission on July 6, 2004 as Exhibit 2.1 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
2.2	Agreement and Plan of Merger by and among Commonwealth Energy Corporation, Skipping Stone Acquisition Corporation, Skipping Stone Inc. and the holders of Skipping Stone Inc. common stock dated March 29, 2004, previously filed with the Commission on April 5, 2004 as Exhibit 2.2 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
3.1	Amended and Restated Certificate of Incorporation of Commerce Energy Group, Inc., previously filed with the Commission on July 6, 2004 as Exhibit 3.3 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
3.2	*Certificate of Designation of Series A Junior Participating Preferred Stock of Commerce Energy Group, Inc. dated* July 1, 2004, previously filed with the Commission on July 6, 2004 as Exhibit 3.4 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
3.3	Amended and Restated Bylaws of Commerce Energy Group, Inc., previously filed with the Commission on July 6, 2004 as Exhibit 3.6 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
4.1	Rights Agreement, dated as of July 1, 2004, entered into between Commerce Energy Group, Inc. and Computershare Trust Company, as rights agent. Rights Agreement, dated as of July 1, 2004, entered into between Commerce Energy Group, Inc. and Computershare Trust Company, as rights agent, previously filed with the Commission on July 6, 2004 as Exhibit 10.1 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
4.2	Form of Rights Certificate, previously filed with the Commission on July 6, 2004 as Exhibit 10.2 to Commerce Energy Group, Inc.'s Registration Statement on Form 8-A, which is incorporated herein by reference.
Material Contracts Relating to Management Compensation Plans or Arrangements	
10.1	Employment Agreement dated January 1, 2000, between Commonwealth Energy Corporation and Ian B. Carter, as modified by an Addendum to Employment Agreement dated as of November 1, 2000, previously filed with the Commission on August 9, 2001 as Exhibit 10.12 to Commonwealth Energy Corporation's Registration Statement on Form 10, which is incorporated herein by reference.
10.2	Consent and Waiver Agreement dated March 12, 2004 between Commonwealth Energy Corporation and Ian B. Carter, previously filed with the Commission on March 16, 2004 as Exhibit 10.1 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the period ended January 31, 2004, which is incorporated herein by reference.
10.3	Second Amendment to Employment Agreement dated March 16, 2004 between Commonwealth Energy Corporation and Ian B. Carter, previously filed with the Commission on March 16, 2004 as Exhibit 10.2 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the period ended January 31, 2004, which is incorporated herein by reference.
10.4	Employment Agreement dated November 1, 2000, between Commonwealth Energy Corporation and John A. Barthrop, previously filed with the Commission on November 14, 2001 as Exhibit 10.15 to Amendment No. 1 to Commonwealth Energy Corporation's Registration Statement on Form 10/ A, which is incorporated herein by reference.
10.5	Amendment to Employment Agreement dated March 31, 2004 between Commonwealth Energy Corporation and John A. Barthrop, previously filed with the Commission on April 5, 2004 as Exhibit 10.5 to Amendment No. 3 to Commerce Energy Group's Registration Statement on Form S-4, which is incorporated herein by reference.
10.6	Executive Employment Agreement dated April 1, 2004 between Commonwealth Energy Corporation, Commerce Energy Group, Inc. and Peter Weigand, previously filed with the Commission on April 5, 2004 as Exhibit 10.6 to Amendment No. 3 to Commerce Energy Group's Registrant's Statement on Form S-4, which is incorporated herein by reference.

Exhibit Number	Title of Exhibit
10.7	Executive Employment Agreement dated April 1, 2004 between Commonwealth Energy Corporation, Commerce Energy Group, Inc. and Richard L. Boughrum, previously filed with the Commission on April 5, 2004 as Exhibit 10.7 to Amendment No. 3 to Commerce Energy Group's Registrant's Statement on Form S-4, which is incorporated herein by reference.
10.8	Commonwealth Energy Corporation 1999 Equity Incentive Plan, previously filed with the Commission on October 8, 2003 as Exhibit 4.1 to Commonwealth Energy Corporation's Registration Statement on Form S-8, which is incorporated herein by reference.
10.9	Form of Stock Option Agreement pursuant to Commonwealth Energy Corporation 1999 Equity Incentive Plan.
10.10	Confidential Severance Agreement and General Release between Richard L. Paulsen and Commonwealth Energy Corporation, previously filed with the Commission on April 5, 2004 as Exhibit 10.1 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2004, which is incorporated herein by reference.
10.11	Confidential Severance Agreement and General Release dated as of February 21, 2004 between James L. Oliver and Commonwealth Energy Corporation, previously filed with the Commission on March 16, 2004 as Exhibit 10.3 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2004, which is incorporated herein by reference.
10.12	Settlement Agreement and Release dated as of August 29, 2003 between Robert C. Perkins and Commonwealth Energy Corporation.
10.13	Stock Option Agreement dated as of August 29, 2003 between Robert C. Perkins and Commonwealth Energy Corporation.
10.14	Stock Option Agreement dated as of August 29, 2003 between Robert C. Perkins and Commonwealth Energy Corporation.
10.15	Stock Option Agreement dated as of July 8, 1999 between Ian B. Carter and Commonwealth Energy Corporation.
10.16	Indemnification Agreement dated as of January 1, 2000 between Commonwealth Energy Corporation and Ian B. Carter, with Schedule attached thereto of other substantially identical Indemnification Agreements, which differ only in the respects set forth in such Schedule.
10.17	Indemnification Agreement dated as of July 1, 2004 between Commerce Energy Group, Inc. and Ian Carter, with Schedule attached thereto of other substantially identical Indemnification Agreements, which differ only in the respects set forth in such Schedule.
Other Material Contracts	
10.18	Skipping Stone Stockholder Escrow Agreement by and among Commonwealth Energy Corporation, Skipping Stone Inc. and the holders of Skipping Stone Inc. common stock, previously filed with the Commission on April 5, 2004 as Exhibit 2.3 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.19	Retention Escrow Agreement by and among Commonwealth Energy Corporation, Skipping Stone Inc., Peter Weigand, Greg Lander, Eric Alam and Bruno Kvetinskas, previously filed with the Commission on April 5, 2004 as Exhibit 2.4 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.20	Registration Rights Agreement by and among Commonwealth Energy Corporation and the holders of Skipping Stone, Inc. common stock dated March 29, 2004, previously filed with the Commission on April 5, 2004 as Exhibit 2.5 to Amendment No. 3 to Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.
10.21	Agreement Not To Compete by and among Commonwealth Energy Corporation, Commerce Energy Group, Inc. and Peter Weigand dated April 1, 2004, previously filed with the Commission on April 5, 2004 as Exhibit 2.6 to Amendment No. 3 Commerce Energy Group, Inc.'s Registration Statement on Form S-4, which is incorporated herein by reference.

Exhibit Number	Title of Exhibit
10.22	Limited Liability Company Agreement of Summit Energy Ventures, LLC, as amended by the First Amendment to the Limited Liability Company Agreement of Summit Energy Ventures, LLC, dated August 2001, previously filed with the Commission on November 14, 2001 as Exhibit 10.6 to Amendment No. 1 to Commonwealth Energy Corporation's Registration Statement on Form 10/ A, which is incorporated herein by reference.
10.23	Second Amendment to the Limited Liability Company Agreement of Summit Energy Ventures, LLC, previously filed with the Commission on April 3, 2002 as Exhibit 10.19 to Amendment No. 2 to Commonwealth Energy Corporation's Registration Statement on Form 10/ A, which is incorporated herein by reference.
10.24	Lease Agreement dated August 9, 2002, between Commonwealth Energy Corporation and Cherry Tree Investors, L.P., previously filed with the Commission on October 29, 2002 as Exhibit 10.25 to Commonwealth Energy Corporation's Annual Report on Form 10-K for the year ended July 31, 2002, which is incorporated herein by reference.
10.25	Consent to Sublease and Sublease Agreement dated May 28, 2004 between E*Trade Consumer Finance Corporation and Commonwealth Energy Corporation.
10.26	Restructuring and Termination of Membership Agreement dated as of April 30, 2004 by and among Summit Energy Ventures, LLC, Commonwealth Energy Corporation, Steven Strasser and Northwest Power Management, Inc., previously filed with the Commission on June 14, 2004 as Exhibit 10.5 to Commonwealth Energy Corporation's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2004, which is incorporated herein by reference.
10.27	Confirmation of Transaction between Commonwealth Energy Corporation and DTE Energy Trading, Inc. dated July 25, 2002, previously filed with the Commission on March 17, 2004 as Exhibit 10.23 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K for the year ended July 31, 2002, which is incorporated herein by reference.
10.28	Exelon Generation Company, LLC Confirmation Agreement dated July 22, 2003, previously filed with the Commission on March 17, 2004, as Exhibit 10.20 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.29	Exelon Generation Company, LLC Confirmation Agreement dated July 22,2003, previously filed with the Commission on March 17, 2004 as Exhibit 10.21 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.30	Confirmation of Transaction between Commonwealth Energy Corporation and DTE Trading, Inc. dated March 24, 2003, previously filed with the Commission on March 17, 2004 as Exhibit 10.22 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.31	Confirmation of Transaction between Commonwealth Energy Corporation and DTE Trading, Inc. dated July 24, 2003, previously filed with the Commission on March 17, 2004 as Exhibit 10.23 to Amendment No. 1 to Commonwealth Energy Corporation's Form 10-K/ A for the year ended July 31, 2003, which is incorporated herein by reference.
10.32	Revised Security Agreement dated October 27, 2004 by and between Commonwealth Energy Corporation and DTE Energy Trading.
10.33	Revised Operating Agreement dated October 27, 2004 between DTE Energy Trading, Inc. and Commonwealth Energy Corporation.
14.1	*Commerce Energy Group, Inc. Code of Business Conduct and Ethics.*
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young, LLP, independent registered public accounting firm.
31.1	Principal Executive Officer Certification required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Chief Financial Officer Certification required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit Number	Title of Exhibit
32.1	Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10.9

FORM OF
STOCK OPTION AGREEMENT
(NONQUALIFIED STOCK OPTION)

This Stock Option Agreement (this "Agreement"), is entered into effective as of the Grant Date (as defined in paragraph 1), by and between Commerce Energy Group, Inc., a Delaware corporation (the "Company"), and the employee, director or officer of the Company listed in paragraph 1 (the "Optionee").

RECITALS

WHEREAS, the Company maintains the 1999 Equity Incentive Plan, as amended (the "Plan"), which is incorporated into and forms a part of this Agreement;

WHEREAS, the Compensation Committee of the Company's Board of Directors (the "Committee") administers the Plan; and

WHEREAS, the Optionee has been selected by the Committee to receive a non-qualified stock option to purchase shares of the Company's common stock, $.001 par value per share (the "Common Stock") under the Plan.

AGREEMENT

1. Terms of Award.

(a) The following terms used in this Agreement shall have the meanings set forth in this paragraph 1:

(i) The "Optionee" is _____.

(ii) The "Grant Date" is _____.

(iii) The number of "Option Shares" shall be _____ shares of Common Stock.

(iv) The "Exercise Price" is $_____ per share.

(b) Other terms used in this Agreement are defined pursuant to paragraph 14 or elsewhere in this Agreement.

2. Award and Exercise Price. This Agreement specifies the terms of the option (the "Option") granted to the Optionee to purchase the number of Option Shares of Common Stock at the Exercise Price per share as set forth in paragraph 1. The Option is not intended to constitute an "incentive stock option" as that term is used in section 422 of the Code.

3. Date of Exercise and Vesting.

(a) Subject to the limitations of this Agreement, the Option shall be exercisable according to the following schedule, with respect to each installment shown in the schedule on and after the Vesting Date applicable to such installment: [NOTE - UNDER THE PLAN, OPTIONS MUST VEST AT LEAST 20% PER YEAR OVER FIRST 5 YEARS.]

Vesting Dates	Amount Vested per Period/ Cumulative Amount Vested
_____, 200_	_____/_____
_____, 200_	_____/_____
_____, 200_	_____/_____
_____, 200_	_____/_____

(b) An installment shall not become exercisable on the otherwise applicable vesting date if the Optionee's Termination Date (as defined in paragraph 14) occurs on or before such vesting date; provided, however, that such Option Shares may become fully vested and exercisable in the discretion of the Board. Subject to the provisions of paragraph 4, the Option may be exercised on or after the Termination Date only as to that portion of the Option Shares as to which it was exercisable immediately prior to the Termination Date, or as to which it became exercisable on the Termination Date in accordance with this paragraph 3.

4. Expiration.

(a) The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date.

(b) The "Expiration Date" shall be earliest to occur of:

(i) the ten-year anniversary of the Grant Date;

(ii) if the Optionee's Termination Date occurs by reason of death or Disability, the one-year anniversary of such Termination Date;

(iii) if the Optionee's Termination Date occurs for reasons other than death, Disability, or Cause, the three month anniversary of such Termination Date; or

(iv) the earliest to occur of any of the following events (each a "Corporate Event"): (A) the dissolution or liquidation of the Company or a merger, consolidation or reorganization (including the sale of substantially all of its assets) of the Company with one or more entities, corporate or otherwise, as a result of which the Company is not the surviving entity; or (B) the merger or other reorganization of the Company with one or more entities, corporate or otherwise, as a result of which the outstanding shares of the Common Stock are changed into or exchanged for shares of the capital stock or other securities of another entity or for cash or other property; provided, however, that the Company may, in its discretion, and immediately prior to any Corporate Event, cause a new option to be substituted for this Option or cause this Option to be assumed by a successor entity or a parent or subsidiary of such entity;

and such new option shall apply to all shares issued in addition to or

ubstitution, replacement or modification of the shares of Common Stock theretofore covered by this Option.

[NOTE - SOME EMPLOYMENT AGREEMENTS PROVIDE THAT THE OPTIONS DO NOT ERMINATE UPON TERMINATION OF EMPLOYMENT.]

(c) Notwithstanding subparagraphs (a) and (b) of this paragraph 4, if an ptionee ceases to be a director, officer or employee of the Company or a Subsidiary due to Cause, all of the Optionee's options shall be forfeited immediately upon such cessation, whether or not then exercisable.

(d) If no provision is made for the continuance of the Plan and the assumption of this Option, or the substitution for this Option of a new option s hereinabove provided, then the Company shall cause written notice to be given o the Optionee of the proposed Corporate Event not less than twenty (20) days prior to the anticipated effective date thereof, for the purpose of affording the Optionee the opportunity to exercise the Option, in accordance with the rovisions of this Agreement, effective immediately prior to the consummation of he Corporate Event. To the extent the Option remains unexercised as of the effective date of the Corporate Event, the Option shall, concurrently with the onsummation of the Corporate Event, terminate and become void and of no effect.

5. Method of Option Exercise.

(a) Subject to the terms of this Agreement and the Plan, the Option may e exercised in whole or in part by filing a written notice, in the form attached hereto as Exhibit A, with the Secretary of the Company at its corporate headquarters prior to the Company's close of business on the last business day hat occurs prior to the Expiration Date. Such notice shall specify the number f shares of Common Stock which the Optionee elects to purchase, and shall be accompanied by payment of the Exercise Price for such shares of Common Stock ndicated by the Optionee's election. Payment shall be by cash or by check ayable to the Company or, where expressly approved for the Optionee by the Board and where permitted by law:

(i) by cancellation of indebtedness of the Company to the ptionee;

(ii) by surrender of shares that either: (A) have been owned by the ptionee for more than six (6) months and have been paid for within the meaning of SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares); or B) were obtained by the Optionee in the public market;

(iii) by tender of a full recourse promissory note having such terms s may be approved by the Board and bearing interest at a rate sufficient to void imputation of income under Sections 483 and 1274 of the Code; [provided, however, that the Optionee will not be entitled to purchase Option Shares with a promissory note unless the note is adequately secured by collateral other than he Option Shares] [INSERT THE BRACKETED PHRASE IF OPTIONEE IS NOT AN EMPLOYEE R DIRECTOR OF THE COMPANY, IF THE OPTIONEE IS AN EXECUTIVE OFFICER OR DIRECTOR, DELETE THIS SUBPARAGRAPH (III) COMPLETELY];

(iv) by waiver of compensation due or accrued to Optionee for services rendered;

(v) with respect only to purchases upon exercise of the Option, nd provided that a public market for the Company's stock exists:

(1) through a "same day sale" commitment from the Optionee

nd a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby the Optionee irrevocably elects to exercise he Option and to sell a portion of the Option Shares so purchased to pay for he Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt f such Option Shares to forward the Exercise Price directly to the Company; or

(2) through a "margin" commitment from the Optionee and a ASD Dealer whereby the Optionee irrevocably elects to exercise the Option and to pledge the Option Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price, nd whereby the NASD Dealer irrevocably commits upon receipt of such Option hares to forward the Exercise Price directly to the Company; or

(vi) by any combination of the foregoing.

6. Transferability of Option. The Option granted hereunder may not be transferred by the Optionee except upon death by will or the laws of descent and istribution. Unless the context otherwise requires, references herein to the ptionee are deemed to include any permitted transferee under this paragraph 6. During the Optionee's lifetime, only the Optionee (or his or her guardian or egal representative) may exercise the Option. In the event of the Optionee's eath, the Option (to the extent still held by the Optionee at such time) may be exercised only (i) by the executor or administrator of the Optionee's estate or the person or persons to whom his or her rights under the Option shall pass by ill or the laws of descent and distribution and (ii) to the extent that the ptionee was entitled hereunder at the date of the Optionee's death.

7. Withholding of Taxes.

(a) Withholding Generally. Upon exercise of this Option, the Company may require the Optionee to remit to the Company an amount sufficient to satisfy ederal, state and local withholding tax requirements prior to the delivery of ny certificate or certificates for the Option Shares.

(b) Stock Withholding. When, under applicable tax laws, the Optionee ncurs tax liability in connection with the exercise or vesting of this Option hat is subject to tax withholding and the Optionee is obligated to pay the Company the amount required to be withheld, the Committee may in its sole iscretion allow the Optionee to satisfy the minimum withholding tax obligation y electing to have the Company withhold from the Option Shares to be issued that number of shares having a Fair Market Value equal to the minimum amount required to be withheld, determined on the date that the amount of tax to be ithheld is to be determined. All elections by the Optionee to have Option hares withheld for this purpose will

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e made in accordance with the requirements established by the Board and be in riting in a form acceptable to the Board.

8. Compliance With Securities Laws. This Option shall not be exercisable if uch exercise would involve a violation of any applicable Federal or state ecurities law.

9. No Rights As Shareholder. The Optionee shall not have any rights of a shareholder with respect to the shares subject to the Option, until a stock certificate has been duly issued following exercise of the Option as provided herein.

10. Plan Governs. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Optionee from the office of the Secretary of the

ompany; and this Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Board from time to time pursuant to the Plan.

1. Not An Employment Contract. The Option will not confer on the Optionee any ight with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the ompany or any Subsidiary would otherwise have to terminate or modify the terms f such Optionee's employment or other service at any time.

12. Adjustments. In the event that the number of outstanding shares is changed y a stock dividend, recapitalization, stock split, reverse stock split, ubdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then the Exercise Prices of and umber of Option Shares subject to this Option will be proportionately adjusted, ubject to any required action by the Board or the stockholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share will not be issued but will either be replaced by a cash ayment equal to the Fair Market Value of such fraction of a Share or will be ounded up to the nearest whole Share, as determined by the Board.

13. Amendment. Except as otherwise provided herein, any provision of this greement may be amended or waived only with the prior written consent of the ptionee and the Board.

14. Certain Definitions. For the purposes of this Agreement, the following erms shall have the meanings set forth below:

(a) "Board" means the Board of Directors of the Company, or if the Board as delegated responsibility for any matter with respect to the Plan to the ommittee, the Compensation Committee of the Board.

(b) "Cause" shall mean the commission of an act of theft, embezzlement, raud, dishonesty or a breach of fiduciary duty to the Company or a Subsidiary of the Company.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended, and ny successor statute.

(d) "Common Stock" shall mean the Common Stock, par value $.001 per hare, of the Company, and any other shares into which such stock may be changed by reason of a recapitalization, reorganization, merger, consolidation or any other change in the corporate structure or capital stock of the Company.

(e) "Disability" means a disability, whether temporary or permanent, partial or total, as determined by the Board.

(f) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and any successor statute.

(g) "Fair Market Value" of a share of Common Stock of the Company shall ean, as of any date, the value of a share of the Company's Common Stock determined as follows: (1) if such Common Stock is then quoted on the Nasdaq National Market, its closing price on the Nasdaq National Market on the date of etermination as reported in The Wall Street Journal; (2) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities xchange on which the Common Stock is listed or admitted to trading as reported n The Wall Street Journal; (3) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on

the date of determination as reported in The Wall Street Journal; or (4) if none of the foregoing is applicable, by the Board in good faith.

(h) "Securities Act" shall mean the Securities Act of 1933, as amended, and any successor statute.

(i) "Subsidiary" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(j) "Termination" or "Terminated" means that the Optionee has for any reason ceased to provide services as an employee, officer, director, consultant, independent contractor, or advisor to the Company or a Subsidiary of the Company. An employee will not be deemed to have ceased to provide services in the case of (1) sick leave, (2) military leave, or (3) any other leave of absence approved by the Board, provided, that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute or unless provided otherwise pursuant to formal policy adopted from time to time by the Company and issued and promulgated to employees in writing. In the case of any employee on an approved leave of absence, the Board may make such provisions respecting suspension of vesting of the Option while on leave from the employ of the Company or a Subsidiary as it may deem appropriate, except that in no event may an Option be exercised after the expiration of the term set forth in this agreement.

(k) "Termination Date" shall mean the effective date on which the Optionee ceased to provide services, as determined by the Board in its sole discretion.

5. Entire Agreement. The Agreement, together with the Plan, constitutes the entire agreement of the parties and supercedes any and all agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

SIGNATURE PAGE TO STOCK OPTION AGREEMENT

IN WITNESS WHEREOF, the parties have executed this Agreement on _____ to reflect the grant which was authorized on the Grant Date as first above written.

COMMERCE ENERGY GROUP, INC.

By: _____

Name: _____

Title: _____

OPTIONEE:

Name: _____

Address (please print):

_____

EXHIBIT A

FORM OF LETTER TO BE USED TO EXERCISE NONQUALIFIED STOCK OPTION

_____
Date

ommerce Energy Group, Inc.
000 Anton Boulevard, Suite 2000
Costa Mesa, CA 92626
ttention: Chief Financial Officer

I wish to exercise the stock option granted on _____ and evidenced by a Stock Option Agreement dated as of _____, to acquire _____ shares of ommon Stock of Commerce Energy Group, Inc., at an option price of $_____ per hare. In accordance with the provisions of the Stock Option Agreement, I wish to make payment of the exercise price (please check all that apply):

[ ] in cash

[ ] by delivery of shares of Common Stock held by me

[ ] by simultaneous sale through a broker of Option Shares

[ ] by authorizing the Company to withhold Option Shares

lease issue a certificate for these shares in the following name:

_____
ame

_____
ddress

_____

Very truly yours,

_____
Signature

_____
Typed or Printed Name

_____
Social Security Number

EXHIBIT 10.12

SETTLEMENT AGREEMENT AND RELEASE

THIS SETTLEMENT AGREEMENT AND RELEASE (this "Agreement") is entered into effective as of August 29, 2003, by and between Commonwealth Energy

orporation, a California corporation ("Commonwealth") and Robert C. Perkins ("Perkins").

RECITALS

A. Perkins has served as a director of Commonwealth since 1999.

B. In connection with his service as a director, Perkins was promised certain options to purchase shares of Commonwealth's Common Stock in 1999, 2001 and 2002 (the "Promised Options").

C. There is a dispute between Commonwealth and Perkins as to the number and terms of the Promised Options.

D. The parties desire to fully, finally and forever settle and compromise all claims, demands, damages, debts, liabilities, accounts, obligations, costs, expenses, liens, actions and causes of action of any kind or nature whatsoever, known or unknown, suspected or unsuspected (collectively, Claims"), which any of the parties may now have or hereafter have or claim to have against the other parties and affiliates of the other parties based on the Promised Options.

NOW, THEREFORE, for and in consideration of the foregoing recitals, the mutual undertakings contained in this Agreement, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Issuance of Stock Option. Commonwealth shall issue to Perkins the following options to purchase shares of Commonwealth common stock (the "New Options"), which shall be fully vested as of the date of grant:

(a) an option to purchase 80,000 shares of Commonwealth common stock at an exercise price of $1.00 per share; and

(b) an option to purchase 20,000 shares of Commonwealth common stock at an exercise price of $1.86 per share.

2. Release by Perkins. Except for obligations created by this Agreement and the New Options, Perkins releases and discharges and agrees to hold harmless Commonwealth and its officers, directors, employees, agents, servants, consultants, advisors, attorneys, heirs, executors, representatives, administrators, affiliates, predecessors, successors and assigns (collectively, the "Commonwealth Affiliates"), from any and all Claims which Perkins may now have or hereafter have or claim to have against Commonwealth or any of the Commonwealth Affiliates based on the Promised Options.

3. Waiver of Civil Code Section 1542. Perkins understands and agrees that the release provided herein extends to all Claims released above whether known or unknown, suspected or unsuspected. As to those matters released herein only, Perkins expressly waives and relinquishes any and all rights they he have under California Civil Code Section 1542, which provides as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Perkins expressly waives and releases any rights and benefits which he has or may have under any similar law or rule of any other jurisdiction pertaining to the matters released herein. It is the intention of each party through this Agreement and with the advice of counsel to fully, finally and forever settle and release the Claims as set forth above. In furtherance of such intention, the release herein given shall be and remain in effect as full and complete release of such matters notwithstanding the discovery of any additional Claims or facts relating thereto.

4. Binding Upon Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties hereto.

5. Modifications. This Agreement may not be amended, canceled, revoked or otherwise modified except by written agreement executed by the party or parties to be charged with such modification.

6. No Admission of Liability. The parties hereto explicitly acknowledge that by entering into this Agreement no party admits or acknowledges the existence of any liability or wrongdoing.

7. Severability. In the event any provision of this Agreement shall be held to be void, voidable or unenforceable, the remaining provisions shall remain in full force and effect.

8. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of California without regard to the conflicts of law principles thereof.

9. Venue. Any action, suit or other proceeding brought by or against any of the parties hereto to enforce this Agreement shall be instituted and maintained only in Orange County, California.

10. Warranty of Authority. Each party whose signature is affixed hereto in a representative capacity represents and warrants that he is authorized to execute this Agreement on behalf of and to bind the entity on whose behalf his signature is affixed.

11. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes any and all other agreements, understandings, negotiations, or discussions, either oral or in writing, express or implied, relative to the matters which are the subject of this Agreement.

12. Further Acts. Each party hereto agrees to perform any further acts and execute and deliver any further documents which reasonably may be necessary to carry out the provisions and intent of this Agreement.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which when executed and delivered shall be an original, and all of which when executed shall constitute one and the same instrument.

14. Miscellaneous Provisions.

14.1 The parties represent that they have read this Agreement and fully understand all of its terms; that they have conferred with their attorneys, or have knowingly and voluntarily chosen not to confer with their attorneys about this Agreement; that they have executed this Agreement without coercion or duress of any kind; and that they understand any rights that they have or may have and sign this Agreement with full knowledge of any such rights.

14.2 The language in all parts of this Agreement must be in all cases construed simply according to its fair meaning and not strictly for or against any party. Whenever the context requires, all words used in the singular must be construed to have been used in the plural, and vice versa, and each gender must include any other gender. The captions of the Sections of this Agreement are for convenience only and must not affect the construction or interpretation of any of the provision herein.

14.3 Each provision of this Agreement to be performed by a party hereto is both a covenant and condition, and is a material consideration for the other party's performance hereunder, and any breach thereof by the party will be a material default hereunder. All rights, remedies, undertakings, obligations, options, covenants, conditions and agreements contained in this Agreement are cumulative and no one of them is exclusive of any other. Time is of the essence in the performance of this Agreement.

14.4 Each party acknowledges that no representation, statement or promise made by any other party, or by the agent or attorney of any other party, has been relied on by him or it in entering into this Agreement.

14.5 Each party understands that the facts with respect to which this Agreement is entered into may be materially different from those the parties now believe to be true. Each party accepts and assumes this risk and agrees that this Agreement and the release in it shall remain in full force and effect, and legally binding, notwithstanding the discovery or existence of any additional or different facts, or of any claims with respect to those facts.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

"COMMONWEALTH" COMMONWEALTH ENERGY CORPORATION,
a California corporation

By:/S/ IAN B. CARTER

Name: Ian B. Carter
Title: Chairman and Chief Executive Officer

"PERKINS" /S/ ROBERT C. PERKINS

Robert C. Perkins

EXHIBIT 10.13

STOCK OPTION AGREEMENT

This Stock Option Agreement (this "Agreement"), is entered into effective as of the Grant Date (as defined in paragraph 1), by and between Commonwealth Energy Corporation, a California corporation (the "Company"), and the individual listed in paragraph 1 (the "Optionee").

RECITALS

WHEREAS, pursuant to the terms of a Settlement Agreement, the Company has agreed to grant a non-qualified stock option to purchase shares of the Company's common stock to the Optionee.

AGREEMENT

1. Terms of Award.

(a) The following terms used in this Agreement shall have the meanings set forth in this paragraph 1:

(i) The "Optionee" is Robert C. Perkins.

(ii) The "Grant Date" is August 29, 2003.

(iii) The number of "Option Shares" shall be 80,000 shares of Common Stock.

(iv) The "Exercise Price" is $1.00 per share.

(b) Other terms used in this Agreement are defined pursuant to paragraph 3 or elsewhere in this Agreement.

2. Award and Exercise Price. This Agreement specifies the terms of the option (the "Option") granted to the Optionee to purchase the number of Option Shares of Common Stock at the Exercise Price per share as set forth in paragraph 1. The Option is not intended to constitute an "incentive stock option" as that term is used in section 422 of the Code.

3. Date of Exercise and Vesting. Subject to the limitations of this Agreement, the Option shall be exercisable in full as of the Grant Date.

4. *Expiration.*

(a) The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date.

(b) The "Expiration Date" shall be earliest to occur of:

(i) the ten-year anniversary of the Grant Date; or

(ii) the dissolution or liquidation of the Company.

5. Method of Option Exercise.

(a) Subject to the terms of this Agreement, the Option may be exercised in whole or in part by filing a written notice, in the form attached hereto as Exhibit A, with the Secretary of the Company at its corporate headquarters prior to the Company's close of business on the last business day that occurs prior to the Expiration Date. Such notice shall specify the number of shares of Common Stock which the Optionee elects to purchase, and shall be accompanied by payment of the Exercise Price for such shares of Common Stock indicated by the Optionee's election. Payment shall be by cash or by check payable to the Company or, where expressly approved for the Optionee by the Board and where permitted by law:

(i) by cancellation of indebtedness of the Company to the Optionee;

(ii) by surrender of shares that either: (A) have been owned by the Optionee for more than six (6) months and have been paid for within the meaning

f SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares); or (B) were obtained by the Optionee in the public market;

(iii) by waiver of compensation due or accrued to Optionee for services rendered;

(iv) with respect only to purchases upon exercise of the Option, and provided that a public market for the Company's stock exists:

(1) through a "same day sale" commitment from the Optionee nd a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby the Optionee irrevocably elects to exercise he Option and to sell a portion of the Option Shares so purchased to pay for he Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Option Shares to forward the Exercise Price directly to the Company; or

(2) through a "margin" commitment from the Optionee and a ASD Dealer whereby the Optionee irrevocably elects to exercise the Option and to pledge the Option Shares so purchased to the NASD Dealer in a margin account s security for a loan from the NASD Dealer in the amount of the Exercise Price, nd whereby the NASD Dealer irrevocably commits upon receipt of such Option hares to forward the Exercise Price directly to the Company; or

(v) by any combination of the foregoing.

6. Transferability of Option. The Option granted hereunder may not be ransferred by the Optionee except upon death by will or the laws of descent and istribution. Unless the context otherwise requires, references herein to the ptionee are deemed to include any permitted transferee under this paragraph 6. During the Optionee's lifetime, only the Optionee (or his or her guardian or egal representative) may exercise the Option. In the event of the Optionee's eath, the Option (to the extent still held by the Optionee at such time) may be exercised only (i) by the executor or administrator of the Optionee's estate or he person or persons to whom his or her rights under the Option shall pass by ill or the laws of descent and distribution and (ii) to the extent that the ptionee was entitled hereunder at the date of the Optionee's death.

. Withholding of Taxes.

(a) Withholding Generally. Upon exercise of this Option, the Company may require the Optionee to remit to the Company an amount sufficient to satisfy ederal, state and local withholding tax requirements prior to the delivery of ny certificate or certificates for the Option Shares.

(b) Stock Withholding. When, under applicable tax laws, the Optionee ncurs tax liability in connection with the exercise or vesting of this Option that is subject to tax withholding and the Optionee is obligated to pay the Company the amount required to be withheld, the Committee may in its sole iscretion allow the Optionee to satisfy the minimum withholding tax obligation y electing to have the Company withhold from the Option Shares to be issued that number of shares having a Fair Market Value equal to the minimum amount equired to be withheld, determined on the date that the amount of tax to be ithheld is to be determined. All elections by the Optionee to have Option hares withheld for this purpose will be made in accordance with the requirements established by the Board and be in writing in a form acceptable to he Board.

8. Compliance With Securities Laws. This Option shall not be exercisable if such exercise would involve a violation of any applicable Federal or state

ecurities law.

9. No Rights As Shareholder. The Optionee shall not have any rights of a hareholder with respect to the shares subject to the Option, until a stock ertificate has been duly issued following exercise of the Option as provided herein.

0. Adjustments. In the event that the number of outstanding shares is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital tructure of the Company without consideration, then the Exercise Prices of and umber of Option Shares subject to this Option will be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company nd compliance with applicable securities laws; provided, however, that ractions of a Share will not be issued but will either be replaced by a cash payment equal to the Fair Market Value of such fraction of a Share or will be rounded up to the nearest whole Share, as determined by the Board.

1. Amendment. Except as otherwise provided herein, any provision of this Agreement may be amended or waived only with the prior written consent of the ptionee and the Board.

-3-

12. Certain Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Board" means the Board of Directors of the Company, or if the Board has delegated responsibility for any matter with respect to the Plan to the ommittee, the Compensation Committee of the Board.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended, and any successor statute.

(c) "Common Stock" shall mean the Common Stock, no par value per share, of the Company, and any other shares into which such stock may be changed by eason of a recapitalization, reorganization, merger, consolidation or any other hange in the corporate structure or capital stock of the Company.

(d) "Exchange Act" shall mean the Securities Exchange Act of 1934, as mended, and any successor statute.

(e) "Fair Market Value" of a share of Common Stock of the Company shall mean, as of any date, the value of a share of the Company's Common Stock determined as follows: (1) if such Common Stock is then quoted on the Nasdaq National Market, its closing price on the Nasdaq National Market on the date of determination as reported in The Wall Street Journal; (2) if such Common Stock s publicly traded and is then listed on a national securities exchange, its losing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in The Wall Street Journal; (3) if such Common Stock is publicly traded but is ot quoted on the Nasdaq National Market nor listed or admitted to trading on a ational securities exchange, the average of the closing bid and asked prices on the date of determination as reported in The Wall Street Journal; or (4) if none f the foregoing is applicable, by the Board in good faith.

(f) "Securities Act" shall mean the Securities Act of 1933, as amended, and any successor statute.

(g) "Subsidiary" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock

possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

3. Entire Agreement. The Agreement constitutes the entire agreement of the parties and supercedes any and all agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

SIGNATURE PAGE TO STOCK OPTION AGREEMENT

IN WITNESS WHEREOF, the parties have executed this Agreement to reflect the grant which was authorized on the Grant Date as first above written.

COMMONWEALTH ENERGY CORPORATION

By:/S/ IAN B. CARTER

Name: Ian B. Carter
Title: Chairman and Chief Executive Officer

OPTIONEE:

/S/ ROBERT C. PERKINS

Robert C. Perkins

EXHIBIT A

FORM OF LETTER TO BE USED TO EXERCISE NONQUALIFIED STOCK OPTION

_____
Date

Commonwealth Energy Corporation
15901 Red Hill Avenue, Suite 100
Tustin, CA 92780
Attention: Chief Financial Officer

I wish to exercise the stock option evidenced by a Stock Option Agreement to acquire _____ shares of Common Stock of Commonwealth Energy Corporation, at an option price of $1.00 per share. In accordance with the provisions of the Stock Option Agreement, I wish to make payment of the exercise price (please check all that apply):

[ ] in cash

[ ] by delivery of shares of Common Stock held by me

[ ] by simultaneous sale through a broker of Option Shares

[ ] by authorizing the Company to withhold Option Shares

Please issue a certificate for these shares in the following name:

_____
Name

[redacted]
Address

[redacted]

Very truly yours,

[redacted]
Signature

[redacted]
Typed or Printed Name

[redacted]
Social Security Number

EXHIBIT 10.14

STOCK OPTION AGREEMENT

This Stock Option Agreement (this "Agreement"), is entered into effective as of the Grant Date (as defined in paragraph 1), by and between Commonwealth Energy Corporation, a California corporation (the "Company"), and the individual listed in paragraph 1 (the "Optionee").

RECITALS

WHEREAS, pursuant to the terms of a Settlement Agreement, the Company has agreed to grant a non-qualified stock option to purchase shares of the Company's common stock to the Optionee.

AGREEMENT

1. Terms of Award.

(a) The following terms used in this Agreement shall have the meanings set forth in this paragraph 1:

(i) The "Optionee" is Robert C. Perkins.

(ii) The "Grant Date" is August 29, 2003.

(iii) The number of "Option Shares" shall be 20,000 shares of Common Stock.

(iv) The "Exercise Price" is $1.86 per share.

(b) Other terms used in this Agreement are defined pursuant to paragraph 13 or elsewhere in this Agreement.

2. Award and Exercise Price. This Agreement specifies the terms of the option (the "Option") granted to the Optionee to purchase the number of Option Shares of Common Stock at the Exercise Price per share as set forth in paragraph 1. The Option is not intended to constitute an "incentive stock option" as that term is used in section 422 of the Code.

3. Date of Exercise and Vesting. Subject to the limitations of this Agreement, the Option shall be exercisable in full as of the Grant Date.

4. Expiration.

(a) *The Option shall not be exercisable after the Company's close of* business on the last business day that occurs prior to the Expiration Date.

(b) The "Expiration Date" shall be earliest to occur of:

(i) the ten-year anniversary of the Grant Date; or

(ii) the dissolution or liquidation of the Company.

. Method of Option Exercise.

(a) Subject to the terms of this Agreement, the Option may be exercised in whole or in part by filing a written notice, in the form attached hereto as xhibit A, with the Secretary of the Company at its corporate headquarters prior o the Company's close of business on the last business day that occurs prior to the Expiration Date. Such notice shall specify the number of shares of Common tock which the Optionee elects to purchase, and shall be accompanied by payment f the Exercise Price for such shares of Common Stock indicated by the ptionee's election. Payment shall be by cash or by check payable to the Company or, where expressly approved for the Optionee by the Board and where permitted y law:

(i) *by cancellation of indebtedness of the Company to the* ptionee;

(ii) by surrender of shares that either: (A) have been owned by the Optionee for more than six (6) months and have been paid for within the meaning f SEC Rule 144 (and, if such shares were purchased from the Company by use of a romissory note, such note has been fully paid with respect to such shares); or (B) were obtained by the Optionee in the public market;

(iii) by waiver of compensation due or accrued to Optionee for ervices rendered;

(iv) with respect only to purchases upon exercise of the Option, nd provided that a public market for the Company's stock exists:

(1) through a "same day sale" commitment from the Optionee nd a broker-dealer that is a member of the National Association of Securities ealers (an "NASD Dealer") whereby the Optionee irrevocably elects to exercise the Option and to sell a portion of the Option Shares so purchased to pay for he Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt f such Option Shares to forward the Exercise Price directly to the Company; or

(2) through a "margin" commitment from the Optionee and a NASD Dealer whereby the Optionee irrevocably elects to exercise the Option and o pledge the Option Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Option Shares to forward the Exercise Price directly to the Company; or

(v) by any combination of the foregoing.

6. Transferability of Option. The Option granted hereunder may not be transferred by the Optionee except upon death by will or the laws of descent and distribution. Unless the context otherwise requires, references herein to the

Optionee are deemed to include any permitted transferee under this paragraph 6. During the Optionee's lifetime, only the Optionee (or his or her guardian or legal representative) may exercise the Option. In the event of the Optionee's death, the Option (to the extent still held by the Optionee at such time) may be exercised only (i) by the executor or administrator of the Optionee's estate or the person or persons to whom his or her rights under the Option shall pass by will or the laws of descent and distribution and (ii) to the extent that the Optionee was entitled hereunder at the date of the Optionee's death.

7. Withholding of Taxes.

(a) Withholding Generally. Upon exercise of this Option, the Company may require the Optionee to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for the Option Shares.

(b) Stock Withholding. When, under applicable tax laws, the Optionee incurs tax liability in connection with the exercise or vesting of this Option that is subject to tax withholding and the Optionee is obligated to pay the Company the amount required to be withheld, the Committee may in its sole discretion allow the Optionee to satisfy the minimum withholding tax obligation by electing to have the Company withhold from the Option Shares to be issued that number of shares having a Fair Market Value equal to the minimum amount required to be withheld, determined on the date that the amount of tax to be withheld is to be determined. All elections by the Optionee to have Option Shares withheld for this purpose will be made in accordance with the requirements established by the Board and be in writing in a form acceptable to the Board.

8. Compliance With Securities Laws. This Option shall not be exercisable if such exercise would involve a violation of any applicable Federal or state securities law.

9. No Rights As Shareholder. The Optionee shall not have any rights of a shareholder with respect to the shares subject to the Option, until a stock certificate has been duly issued following exercise of the Option as provided herein.

10. Adjustments. In the event that the number of outstanding shares is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then the Exercise Prices of and number of Option Shares subject to this Option will be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share will not be issued but will either be replaced by a cash payment equal to the Fair Market Value of such fraction of a Share or will be rounded up to the nearest whole Share, as determined by the Board.

11. Amendment. Except as otherwise provided herein, any provision of this Agreement may be amended or waived only with the prior written consent of the Optionee and the Board.

12. Certain Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Board" means the Board of Directors of the Company, or if the Board has delegated responsibility for any matter with respect to the Plan to the Committee, the Compensation Committee of the Board.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended, and any successor statute.

(c) "Common Stock" shall mean the Common Stock, no par value per share, of the Company, and any other shares into which such stock may be changed by reason of a recapitalization, reorganization, merger, consolidation or any other change in the corporate structure or capital stock of the Company.

(d) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and any successor statute.

(e) "Fair Market Value" of a share of Common Stock of the Company shall mean, as of any date, the value of a share of the Company's Common Stock determined as follows: (1) if such Common Stock is then quoted on the Nasdaq National Market, its closing price on the Nasdaq National Market on the date of determination as reported in The Wall Street Journal; (2) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in The Wall Street Journal; (3) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in The Wall Street Journal; or (4) if none of the foregoing is applicable, by the Board in good faith.

(f) "Securities Act" shall mean the Securities Act of 1933, as amended, and any successor statute.

(g) "Subsidiary" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

13. Entire Agreement. The Agreement constitutes the entire agreement of the parties and supercedes any and all agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

SIGNATURE PAGE TO STOCK OPTION AGREEMENT

IN WITNESS WHEREOF, the parties have executed this Agreement to reflect the grant which was authorized on the Grant Date as first above written.

COMMONWEALTH ENERGY CORPORATION

By:/S/ IAN B. CARTER

Name: Ian B. Carter
Title: Chairman and Chief Executive Officer

OPTIONEE:

/S/ ROBERT C. PERKINS

Robert C. Perkins

EXHIBIT A

FORM OF LETTER TO BE USED TO EXERCISE NONQUALIFIED STOCK OPTION

_____
Date

Commonwealth Energy Corporation
15901 Red Hill Avenue, Suite 100
Tustin, CA 92780
Attention: Chief Financial Officer

I wish to exercise the stock option evidenced by a Stock Option Agreement to acquire _____ shares of Common Stock of Commonwealth Energy Corporation, at an option price of $1.86 per share. In accordance with the provisions of the Stock Option Agreement, I wish to make payment of the exercise price (please check all that apply):

[ ] in cash

[ ] by delivery of shares of Common Stock held by me

[ ] by simultaneous sale through a broker of Option Shares

[ ] by authorizing the Company to withhold Option Shares

Please issue a certificate for these shares in the following name:

_____
Name

_____
Address

_____

Very truly yours,

_____
Signature

_____
Typed or Printed Name

_____
Social Security Number

EXHIBIT 10.15

[COMMONWEALTH
ENERGY CORPORATION
LOGO]

OPTION TO PURCHASE COMMON STOCK OF
COMMONWEALTH ENERGY CORPORATION

This is to certify that, for good and valuable consideration Ian B.Carter, Trustee Sole Proprietor Profit Sharing Plan (the "Holder"), is entitled to purchase, subject to the provisions of this Option, from Commonwealth Energy

orporation, a California corporation (the "Company"), during the time of the option period on or before December 31, 2004 (the "Exercise Period") 100,000 hares of the Company's Common Stock (the "Common Stock"), at a cash price of .50 per share. The shares of Common Stock deliverable upon such exercise, and as adjusted from time to time, are hereinafter sometimes referred to as "Option Shares" and the exercise price of a share of Common Stock in effect at any time nd as adjusted from time to time is hereinafter referred to as the "Exercise rice."

1. Exercise of Option. Subject to the provisions of Section 6 hereof, this ption may be exercised in whole or in part at any time or from time to time, in inimum increments of one thousand shares, during the Exercise Period by presentation and surrender of this Option to the Company at its principal ffice, with the Purchase Form annexed hereto duly executed and accompanied by ayment of the Exercise Price for the number of shares specified in such form. If this Option should be exercised in part only, the Company shall, upon surrender of this Option for cancellation, execute and deliver a new Option videncing the rights of the Holder thereof to purchase the balance of the hares purchasable hereunder. Upon receipt by the Company of this Option and payment of the Exercise Price at its office, in proper form for exercise, the older exercise, notwithstanding that the stock transfer books of the Company hall then be closed or that certificates representing such shares of Common tock shall not then be actually delivered to the Holder. Following proper exercise of this Option, a certificate for the shares purchased, registered in he name of the person entitled to receive such shares, shall be promptly elivered to such person. The Option Fee paid by the Holder to the Company shall be credited toward the Exercise Price of the Option.

2. Reservation of Shares. The Company hereby agrees that all times there hall be reserved for issuance and/or delivery upon exercise of this option such number of shares of its Common Stock as shall be required for issuance and delivery upon exercise of this Option. All shares issued upon proper exercise of his Option shall be validly issued, fully paid and nonassessable.

3. Fractional Shares. No fractional shares shall be issued upon the xercise of this Option.

4. Rights of the Holder. The Holder shall not, by virtue hereof, be entitled to any rights of a shareholder in the Company, either at law or in quity, and the rights of the Holder are limited to those expressed in this ption and are not enforceable against the Company except to the extent set forth herein.

5. Notices of Option Holder. So long as this Option shall be outstanding, f the Company shall pay any dividend or make any distribution upon the Common Stock, or if any capital reorganization of the Company, reclassification of the apital stock of the Company, consolidated or merger of the Company with or into nother corporation, sale, lease or transfer of all or substantially all of the property and assets of the Company to another corporation, or voluntary or involuntary dissolution, liquidation or winding up of the Company shall be ffected, then in any such case the Company shall cause to be mailed by certified mail to the Holder at least fifteen (15) days prior to the date specified in (a) or (b) below, as the case may be a notice containing a brief escription of the proposed action and stating the date on which

(a) a record date is to be taken for the purpose of such dividend distribution or rights, or

(b) such reclassification, reorganization, consolidation, merger, convenience, lease, dissolution, liquidation or winding up is to take place and he date, if any, to be fixed, as of which the holders of Common Stock or other

ecurities shall receive cash or other property deliverable upon such *reclassification, reorganization, consolidation, merger, conveyance,* dissolution, liquidation or winding up.

6. Restrictions on Transfers and Compliance with Securities Laws.

(a) Transfer Restrictions. The Holder shall not be entitled to transfer his Option without the prior written consent of the Company, except to the Holder's lineal descendants or to a corporation wholly-owned by the Holder. Further, this option and the Option Shares have not been registered under the ecurities Act of 1933, as amended (the "Securities Act"), or any state ecurities law..The Holder, by acceptance of this Option, agrees that, absent an effective registration statement under that Act covering the

ransfer of this Option or the Option Shares, it will not sell, pledge or otherwise transfer any or all of this Option to the Option Shares without first providing the Company with an opinion of counsel or other evidence reasonably atisfactory to the Company to the effect that such sale or transfer will be xempt from the registration and prospectus delivery requirements of the ecurities Act.

(b) Exercise Requirements. The Company shall not be required to egister the Option Shares under the Securities Act and, in connection with the Holder's exercise of this Option, the Company shall be entitled to utilize applicable private placement exemptions from the registration requirements under tate and federal securities laws. At the time of such exercise, the Company may equire reasonable representations from the Holder appropriate to satisfy the requirements of such private placement exemptions.

(c) Representation by Holder. The Holder represents that this Option has been acquired for his own account and not with a view to or for sale in connection with any distribution of the Option or the Option Shares.

7. Notices. Any notice or other communication which is given to a party under this Option shall be in writing and shall be deemed given, the case of an individual party, when personally delivered to that party, or when delivered, addressed to that party, at the following address:

If to the Company: COMMONWEALTH ENERGY CORPORATION
Attention: David Mensch, President
15991 Redhill Ave., Suite 201
Tustin, CA 92780

With a copy to:

If to the Holder: Ian Carter
19392 Lemon Hill
Santa Ana, CA 92705

Either party may, by giving notice to the other party as provided in this paragraph, change the address to which or the person to whose attention notices to that party shall be given.

8. *Amendment or Modification of Option.* This Option may be modified, altered or amended only by a writing signed by both the registered Holder and the Company.

9. California Law. This Option shall be governed by and construed in accordance with the laws of the state of California.

10. Successors and Assigns. Subject to the restrictions on transfer set forth in Section 6, this agreement shall inure to the benefit of and be binding upon the parties and their respective successors and assigns.

11. Attorneys' Fees. In any action or proceeding to enforce or relating to rights or obligations under this Option, the prevailing party shall be entitled to recover its reasonable attorneys' fees in addition to its costs and other available remedies.

Date Issued: July 8, 1999

THE COMPANY:

/s/ David Mensch

COMMONWEALTH ENERGY CORPORATION
a California Corporation
By: David Mensch, President

THE HOLDER:

/s/ Ian B. Carter

PURCHASE FORM

(to be executed only upon exercise of Option)

The undersigned owner of this Option irrevocably exercises this Option and purchases of the number of shares of Common Stock of Commonwealth Energy Corporation purchasable under this Option, and herewith makes payment therefore all at the price and on the terms and conditions specified in this Option. The undersigned requests that a certificate for such shares be registered in the name of _____ whose address is _____ _____ and that such certificate be delivered to _____ whose address is _____ _____.

DATED: _____

_____
(Signature of Owner)

_____
(Printed Name of Owner)

_____
(Street Address)

_____
(City) (State) (Zip)

EXHIBIT 10.16

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into and is effective as of November 1, 2000, by and between COMMONWEALTH ENERGY ORPORATION, a California corporation (the "Corporation"), and IAN B. CARTER, an ndividual ("Indemnitee").

RECITALS:

A. Indemnitee performs a valuable service to the Corporation in his capacity as an officer and a director of the corporation.

B. The shareholders of the Corporation have adopted Bylaws (the "Bylaws") providing for the indemnification of the officers, directors, employees and other agents of the Corporation as authorized by the California orporations Code, as amended (the "Code").

C. The Bylaws and the Code; by their non-exclusive nature, permit ontracts between the Corporation and its directors, officers, employees and ther agents with respect to indemnification of such persons.

D. In accordance with the authorization provided by the Bylaws and the ode, the Corporation is entitled to purchase a policy or policies of Directors' nd Officers' Liability Insurance ("Insurance") covering certain liabilities which may be incurred by its directors and officers in the performance of their uties to the Corporation.

E. As a result of developments affecting the terms, scope and availability of Insurance, there exists general uncertainty as to the extent of rotection afforded such persons by such Insurance and by statutory and bylaw ndemnification provisions.

F. In order to induce Indemnitee to continue to serve as an officer of he Corporation, the Corporation has determined and agreed to enter into this greement with Indemnitee.

OW, THEREFORE, the parties hereto agree as follows:

1. Services to the Corporation. Indemnitee will serve, at the will of the Corporation or under separate contract, if any such contract exists, as an fficer of the Corporation or as a director, officer or other fiduciary of the orporation or an affiliate of the Corporation (including any employee benefit plan of the Corporation) faithfully and to the best of his ability so long as he is duly elected and qualified in accordance with the provisions of the Bylaws, ther applicable constitutive documents of the Corporation or such affiliate, or ther separate contract, if any such contract exists; provided, however, that Indemnitee may at any time and for any reason resign from such position (subject o any contractual obligation that Indemnitee may have assumed apart from this greement) and that the Corporation or any affiliate shall have no obligation under this Agreement to continue Indemnitee in any such position.

2. Indemnity of Indemnitee. The Corporation shall hold harmless, ndemnify and advance expenses to Indemnitee as provided in this Agreement and to the fullest extent authorized, permitted or required by the provisions of the ylaws and the Code, as the same may be amended from time to time (but, only to

[redacted]he extent that such amendment permits the Corporation to provide broader indemnification rights than were permitted by the Bylaws or the Code prior to adoption of such amendment), The rights of Indemnitee provided under the preceding sentence shall include, but shall not be limited to, the rights set forth in the other sections of this Agreement.

[redacted] 3. Additional Indemnity. In addition to and not in limitation of the indemnification otherwise provided for herein, and subject only to the exclusions set forth in Section 4 hereof, the Corporation hereby further agrees to hold harmless and indemnify Indemnitee:

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[redacted] (a) Against any and all expenses (including reasonable attorneys' fees), witness fees, damages, judgments, fines and amounts paid in settlement and any other amounts that Indemnitee becomes legally obligated to pay because of any claim or claims made against or by him in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitrative, administrative or investigative (including an action by or in the right of the Corporation) to which Indemnitee is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Indemnitee is, was or at any time becomes a director, officer, employee or other agent of the Corporation, or is or was serving or at arty time serves at the request of the Corporation as a director, officer, employee or other agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise; and

[redacted] (b) Otherwise to the fullest extent as may be provided to Indemnitee by the Corporation under the non-exclusivity provisions of the Code,

[redacted] 4. Limitations on Additional Indemnity. No indemnity pursuant to Section 3 hereof shall be paid by the Corporation:

[redacted] (a) On account of any claim against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

[redacted] (b) On account of Indemnitee's conduct that was knowingly fraudulent or deliberately dishonest, or that constituted willful misconduct;

[redacted] (c) On account of Indemnitee's conduct that constituted a breach of Indemnitee's duty of loyalty to the Corporation or resulted in any personal profit or advantage to which Indemnitee was not legally entitled;

[redacted] (d) For which payment has actually been made to Indemnitee under a valid and collectible insurance policy or under a valid and enforceable indemnity clause, bylaw or agreement, except in respect of any excess beyond payment under such insurance, clause, bylaw or agreement;

[redacted] (e) If indemnification is not lawful (and, in this respect, both the Corporation and Indemnitee have been advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication) or is prohibited by any applicable state securities laws with respect to any violation of applicable federal or state securities laws; or

[redacted] (f) In connection with any proceeding (or part thereof) initiated by Indemnitee, or any proceeding by Indemnitee against the Corporation or its

directors, officers, employees or other agents, unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the Corporation, (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Code, or (iv) the proceeding is initiated pursuant to Section 9 hereof.

5. Continuation of Indemnity. All agreements and obligations of the Corporation contained herein shall continue during the period Indemnitee is a director, officer, employee or other agent of the Corporation (or is or was serving at the request of the Corporation as a director, officer, employee or other agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitrative, administrative or investigative, by reason of the fact that Indemnitee was a director of the Corporation or serving in any other capacity referred to herein.

6. Partial Indemnification. Indemnitee shall be entitled under this Agreement to indemnification by the Corporation for a portion of the expenses (including attorneys' fees), witness fees, damages, judgments, fines and amounts paid in settlement and any other amounts that Indemnitee becomes legally obligated to pay in connection with any action, suit or proceeding referred to in Section 3 hereof even if not entitled hereunder to indemnification for the total amount thereof, and the Corporation shall indemnity Indemnitee for the portion thereof to which Indemnitee is entitled.

7. Notification and Defense of Claim. Not later than thirty (30) days after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee will, if a claim in respect thereto is to be made against the Corporation under this Agreement, notify the Corporation of the commencement thereof; but the omission so to notify the Corporation will not relieve it from any liability which is may have to Indemnitee otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Indemnitee notifies the Corporation of the commencement thereof:

(a) The Corporation will be -entitled to participate therein at its own expense;

(b) Except as otherwise provided below, the Corporation may, at its option and jointly with any other indemnifying party similarly notified and electing to assume such defense, assume the defense thereof, with counsel reasonably satisfactory to Indemnitee. After notice from the Corporation to Indemnitee of its election to assume the defense thereof, the Corporation will not be liable to Indemnitee under this Agreement for any legal or other expenses subsequently incurred by Indemnitee in connection with the defense thereof except for reasonable costs of investigation or otherwise as provided below. Indemnitee shall have the right to employ separate counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Corporation, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of the defense of such action, or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of indemnitee's separate counsel shall beat the expense of the Corporation. The Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall have made the conclusion provided for in (ii) above; and

(c) The Corporation shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent, which shall not be unreasonably withheld. The Corporation shall be permitted to settle any action except that it shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent which may be given or withheld in Indemnitee's sole discretion.

8. Expenses. The Corporation shall advance, prior to the final disposition of any proceeding, promptly following request therefor, all expenses incurred by Indemnitee in connection with such proceeding upon receipt of an undertaking by or on behalf of Indemnitee to repay said amounts it if shall be determined ultimately that Indemnitee is not entitled to be indemnified under the provisions of this Agreement, the Bylaws, the Code or otherwise.

9. Enforcement. Any right to indemnification or advances granted by this Agreement to Indemnitee shall be enforceable by or on behalf of Indemnitee in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. Indemnitee, in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting his claim. It shall be a defense to any action for which a claim for indemnification is made under Section 3 hereof (other than an action brought to enforce a claim for advancement of expenses pursuant to Section 8 hereof, provided that the required undertaking has been tendered to the Corporation) that Indemnitee is not entitled to indemnification because of the limitations set forth in Section 4 hereof, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or its shareholders) to have made a determination prior to the commencement of such enforcement action that indemnification of Indemnitee is proper in the circumstances, nor an actual determination by the Corporation (including its Board of Directors or its shareholders) that such indemnification is improper, shall be

a defense to the action or create a presumption that Indemnitee is not entitled to indemnification under this Agreement or otherwise.

10. Subrogation. In the event of payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Corporation effectively to bring suit to enforce such rights.

11. Non-Exclusivity of Rights. The rights conferred on Indemnitee by this Agreement shall not be exclusive of any other right which Indemnitee may have or hereafter acquire under any statute, provision of the Articles of Incorporation, the Bylaws, agreement, vote of shareholders or directors or otherwise, both as to action in his/her official capacity and as to action in another capacity while holding office.

12. Survival of Rights.

(a) The rights conferred on Indemnitee by this Agreement shall continue after Indemnitee has ceased to be a director, officer, employee or other agent of the Corporation or to serve at the request of the Corporation as a director, officer, employee or other agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise and shall inure to the benefit of Indemnitee's heirs, executors and administrators.

(b) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business Or assets of the Corporation, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place.

13. Separability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof. Furthermore, if this Agreement shall be invalidated in its entirety on any ground, then the Corporation shall nevertheless indemnify Indemnitee to the fullest extent provided by the Bylaws, the Code or any other applicable law.

14. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of California.

15. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

16. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to bean original but all of which together shall constitute but one and the same Agreement. Only one such counterpart need he produced to evidence the existence of this Agreement.

17. Headings. The headings of the sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

18. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (i) upon delivery if delivered by hand to toe party to whom such notice or other communication shall have been directed, or (ii) if mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to:

Mr. Ian B. Carter
19392 Lemon Hill Drive
Santa Ana, CA 92705

(b) If to the Corporation, to:

Commonwealth Energy Corporation
15901 Redhill Avenue
Tustin, CA 92780
Attn: Chairman of the Board

or to such other address(es) as may have been furnished to/by Indemnitee to/by the Corporation.

IN WITNESS WHEREOF, the parties hereto have duly executed this Indemnification Agreement as of the day and year first above written.

CORPORATION

COMMONWEAL THENERGY CORPORATION, a
California corporation

By: /s/ JOHN A. BARTHROP

John A. Barthrop, Secretary to the
Board and General Counsel to the
Corporation

INDEMNITEE

/s/ IAN B. CARTER

Ian B. Carter

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SCHEDULE TO EXHIBIT 10.16

Commonwealth Energy Corporation entered into Indemnification Agreements with several officers and directors, each substantially identical to Exhibit 10.16 except that the Indemnitee and the date of the other Indemnification Agreements are as follows:

Indemnitee	Date of Agreement
Robert C. Perkins	November 1, 2000
John A. Barthrop	November 1, 2000
Mark S. Juergensen	May 9, 2003
Kenneth L. Robinson	March 16, 2004
Craig G. Goodman	January 1, 2002

EXHIBIT 10.17

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement") is made and entered into and is effective as of July 1, 2004, by and between Commerce Energy Group, Inc., a Delaware corporation (the "Corporation"), and Ian B. Carter, an individual ("Indemnitee").

RECITALS

A. Indemnitee performs a valuable service to the Corporation in his capacity as a director and officer of the Corporation.

B. The Amended and Restated Certificate of Incorporation (the "Certificate") and the Bylaws (the "Bylaws") of the Corporation provide for the indemnification of the officers and directors of the Corporation as authorized by the Delaware General Corporation Law, as amended (the "DGCL").

C. The Certificate, the Bylaws and the DGCL, by their non-exclusive

nature, permit contracts between the Corporation and its directors, officers, employees and other agents with respect to indemnification of such persons.

D. In accordance with the authorization provided by the Certificate, the Bylaws and the DGCL, the Corporation is entitled to purchase a policy or policies of directors' and officers' liability insurance covering certain liabilities which may be incurred by its directors and officers in the performance of their duties to the Corporation.

E. As a result of developments affecting the terms, scope and availability of such insurance, there exists general uncertainty as to the extent of protection afforded such persons by such Insurance and by statutory and bylaw indemnification provisions.

F. In order to induce Indemnitee to continue to serve as a director and officer of the Corporation, the Corporation has determined and agreed to enter into this Agreement with Indemnitee.

AGREEMENT

1. Indemnity of Indemnitee. The Corporation shall hold harmless, indemnify and advance expenses to Indemnitee as provided in this Agreement and to the fullest extent authorized, permitted or required by the provisions of the Certificate, the Bylaws and the DGCL, as the same may be amended from time to time (but, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than were permitted by the Certificate, the Bylaws or the DGCL prior to adoption of such amendment); provided, however, that the Corporation shall not indemnify Indemnitee in connection with any proceeding, (or part thereof) initiated by Indemnitee, or any proceeding by Indemnitee against the Corporation or its directors, officers, employees or other agents, unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding, was authorized by the Board of Directors of the

Corporation, (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the DGCL, or (iv) the proceeding is initiated with respect to a proceeding to enforce rights to indemnification pursuant to Section 8 hereof. The rights of Indemnitee provided under the preceding sentence shall include, but shall not be limited to, the rights set forth in the other sections of this Agreement.

2. Additional Indemnity. In addition to and not in limitation of the indemnification otherwise provided for herein, and subject only to the exclusions set forth in Section 3 hereof, the Corporation hereby further agrees to hold harmless and indemnify Indemnitee:

(a) Against all liabilities, losses, expenses (including attorney's fees), judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement actually and reasonably incurred or suffered by Indemnitee in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, to which he is a party or a witness, by reason of the fact that Indemnitee is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent.

(b) Otherwise to the fullest extent as may be provided to Indemnitee by the Corporation under the non-exclusivity provisions of the DGCL.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by the Corporation:

(a) On account of any claim against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any Federal, state or local statutory law;

(b) On account of Indemnitee's conduct that was knowingly fraudulent or deliberately dishonest, or that constituted willful misconduct;

(c) On account of, or attributable to, Indemnitee's conduct that constituted a breach of Indemnitee's duty of loyalty to the Corporation or resulted in any personal profit or advantage to which Indemnitee was not legally entitled;

(d) For which payment has actually been made to Indemnitee under a valid and collectible insurance policy or under a valid and enforceable indemnity clause, bylaw or agreement, except in respect of any excess beyond payment under such insurance, clause, bylaw or agreement;

(e) The payment of which by the Corporation under this Agreement is not permitted by applicable law;

(f) If indemnification is not lawful (and, in this respect, both the Corporation and Indemnitee have been advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication) or is prohibited by any applicable state securities laws with respect to any violation of applicable federal or state securities laws; or

(g) In connection with any proceeding, (or part thereof) initiated by Indemnitee, or any proceeding by Indemnitee against the Corporation or its directors, officers, employees or other agents, unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding, was authorized by the Board of Directors of the Corporation, (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the DGCL, or (iv) the proceeding is initiated pursuant to Section 8 hereof.

4. Continuation of Indemnity. All agreements and obligations of the Corporation contained herein shall continue during the period Indemnitee is a director, officer, employee or other agent of the Corporation (or is or was serving at the request of the Corporation as a director, officer, employee or other agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitrative, administrative or investigative, by reason of the fact that Indemnitee was (i) a director of the Corporation or (ii) serving in any other capacity referred to herein, and shall inure to the benefit of Indemnitee's heirs, executors and administrators.

5. Partial Indemnification. Indemnitee shall be entitled under this Agreement to indemnification by the Corporation for a portion of the expenses (including attorneys' fees), witness fees, damages, judgments, fines and amounts

aid in settlement and any other amounts that Indemnitee becomes legally obligated to pay in connection with any action, suit or proceeding referred to in Section 2 hereof even if not entitled hereunder to indemnification for the otal amount thereof, and the Corporation shall indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

6. Notification and Defense of Claim. Not later than thirty (30) days fter receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee will, if a claim in respect thereto is to be made against the Corporation under this Agreement, notify the Corporation of the commencement hereof; but the omission so to notify the Corporation will not relieve it from ny liability which it may have to Indemnitee otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Indemnitee notifies the Corporation of the commencement thereof

(a) The Corporation will be entitled to participate therein at its own expense;

(b) Except as otherwise provided below, the Corporation may, at its option and jointly with any other indemnifying party similarly notified and electing to assume such defense, assume the defense thereof, with counsel reasonably satisfactory to Indemnitee. After

notice from the Corporation to Indemnitee of its election to assume the defense hereof, the Corporation will not be liable to Indemnitee under this Agreement for any legal or other expenses subsequently incurred by Indemnitee in connection with the defense thereof except for reasonable costs of investigation or otherwise as provided below. Indemnitee shall have the right to employ separate counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Corporation, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of the defense of such action, or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of Indemnitee's separate counsel shall be at the expense of the Corporation. The Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall have made the conclusion provided for in (ii) above; and

(c) The Corporation shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent, which shall not be unreasonably withheld. The Corporation shall be permitted to settle any action except that it shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent which may be given or withheld in Indemnitee's sole discretion.

7. Expenses. The Corporation shall pay the expenses incurred by Indemnitee in defending any proceeding in advance of its final disposition, provided that, to the extent required by the DGCL, the payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by Indemnitee to repay all amounts advanced if it should be ultimately determined by final judicial decision from which there is no further right to appeal that Indemnitee is not entitled to be indemnified under this Agreement or otherwise.

8. Enforcement. Any right to indemnification or advances granted by this Agreement to Indemnitee shall be enforceable by or on behalf of Indemnitee

nly in the Chancery Court of the State of Delaware if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within sixty (60) days of request therefor. ndemnitee, in such enforcement action, if successful in whole or in part, shall e entitled to be paid also the expense of prosecuting his claim. It shall be a defense to any action for which a claim for indemnification is made under ection 2 hereof (other than an action brought to enforce a claim for dvancement of expenses pursuant to Section 7 hereof, provided that the required undertaking has been tendered to the Corporation) that Indemnitee is not entitled to indemnification because of the limitations set forth in Section 3 ereof, but the burden of proving such defense shall be on the Corporation. either the failure of the Corporation (including its Board of Directors or its shareholders) to have made a determination prior to the commencement of such nforcement action that indemnification of Indemnitee is proper in the ircumstances, nor an actual determination by the Corporation (including its Board of Directors or its shareholders) that such indemnification is improper, shall be a defense to the action or create a presumption that Indemnitee is not ntitled to indemnification under this Agreement or otherwise.

-4-

9. Subrogation. In the event of payment under this Agreement, the orporation shall be subrogated to the extent of such payment to all of the ights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Corporation effectively to bring suit to enforce such rights.

10. Non Exclusivity of Rights. The rights conferred on Indemnitee by this Agreement shall not be exclusive of any other right which Indemnitee may ave or hereafter acquire under any statute, provision of the Certificate, the ylaws, agreement, vote of shareholders or directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office.

11. Survival of Rights.

(a) The rights conferred on Indemnitee by this Agreement shall ontinue after Indemnitee has ceased to be a director, officer, employee or ther agent of the Corporation or to serve at the request of the Corporation as a director, officer, employee or other agent of another corporation, artnership, joint venture, trust, employee benefit plan or other enterprise and hall inure to the benefit of Indemnitee's heirs, executors and administrators.

(b) The Corporation shall require any successor (whether direct or ndirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Corporation, expressly to assume and agree to perform this Agreement in the same manner and to the same xtent that the Corporation would be required to perform if no such succession ad taken place.

12. Severability. Each of the provisions of this Agreement is a separate nd distinct agreement and independent of the others, so that if any provision ereof shall be held to be invalid for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other rovisions hereof. Furthermore, if this Agreement shall be invalidated in its ntirety on any ground, then the Corporation shall nevertheless indemnify Indemnitee to the fullest extent provided by the Certificate, the Bylaws, the DGCL or any other applicable law.

13. Consent to Jurisdiction. The Corporation and Indemnitee each hereby irrevocably consent to the jurisdiction of the Court of the State of Delaware for all purposes in connection with any action or proceeding, which arises out

f or relates to this Agreement, and agree that any action instituted under this Agreement shall be brought only in the Chancery Courts of the State of Delaware.

14. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

15. Amendment and Termination. No amendment, modification, termination r cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

16. Identical Counterparts. This Agreement may be executed in one or ore counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute but one and the same greement. Only one such counterpart need be produced to evidence the existence f this Agreement.

17. Headings. The headings of the sections of this Agreement are nserted for convenience only and shall not be deemed to constitute part of this greement or to affect the construction hereof.

18. Notices. All notices, requests, demands and other communications ereunder shall be in writing and shall be deemed to have been duly given (i) upon delivery if delivered by hand to the party to whom such notice or other communication shall have been directed, or (ii) if mailed by certified or egistered mail with postage prepaid, on the third business day after the date n which it is so mailed:

(a) If to Indemnitee, to:

_____

_____

(b) If to the Corporation, to:

Commerce Energy Group, Inc.
600 Anton Boulevard, Suite 2000
Costa Mesa, CA 92626
Attn: Chairman of the Board

or to such other address(es) as may have been furnished to/by Indemnitee to/by he Corporation.

IN WITNESS WHEREOF, the parties hereto have duly executed this Indemnification Agreement as of the day and year first above written.

"Indemnitee" /S/ IAN B. CARTER

Ian B. Carter

"Corporation" COMMERCE ENERGY GROUP, INC., a Delaware corporation

By: /S/ JOHN A. BARTHROP

Name: John A. Barthrop
Title: General Counsel

SCHEDULE TO EXHIBIT 10.17

Commerce Energy Group, Inc. entered into Indemnification Agreements with several officers and directors, each substantially identical to Exhibit 10.17 except that the Indemnitee and the date of the other Indemnification Agreements are as follows:

Indemnitee	Date of Agreement
Robert C. Perkins	July 1, 2004
John A. Barthrop	July 1, 2004
Mark S. Juergensen	July 1, 2004
Kenneth L. Robinson	July 1, 2004
Craig G. Goodman	July 1, 2004
Richard L. Boughrum	July 1, 2004
Peter Weigand	July 1, 2004
Laura Taylor	November 11, 2004

EXHIBIT 10.25

CONSENT TO SUBLEASE

Building:	Plaza Tower
Premises:	The 20th and 21st floors commonly known as Suite 2000 and Suite 2100
Date of Master Lease:	May 15, 1999
Date of First Amendment To Lease:	February 26, 2001
Date of Assignment and Assumption Agreement:	October 30, 2002
Date of Sublease:	May 28, 2004
Master Landlord:	600 Anton Boulevard Associates
Landlord:	E*Trade Consumer Finance Corp. fka Ganis Credit Corporation
Tenant:	Commonwealth Energy Corporation

This Consent to Sublease ("Consent") dated as of May 28, 2004 is executed by and among 600 Anton Boulevard Associates ("Master Landlord"), E*Trade Consumer Finance Corp., a Delaware corporation fka Ganis Credit Corporation ("Landlord") and Commonwealth Energy Corporation, a California corporation ("Tenant") in connection with a proposed Sublease dated May 28, 2004 ("Sublease"), affecting certain premises ("Tenant Premises") specified above and more particularly described in that certain Lease dated May 15, 1999 by and between Master Landlord and Landlord's predecessor in interest as such Lease has been or may be amended or modified from time to time ("Master Lease"). A copy of the Sublease is attached hereto as Exhibit "A" and incorporated by this reference into this Consent.

Master Landlord hereby consents to the Sublease to Tenant upon the following express terms and conditions and Master Landlord, Landlord and Tenant hereby agree as follows:

A. Neither the Sublease nor this Consent shall:

1. Release or discharge Landlord from any liability, whether past, present or future, under the Master Lease;

2. Operate as Master Landlord's consent to or approval of any of the terms, covenants, conditions, provisions or agreements of the Sublease and Master Landlord shall not be bound thereby;

3. Be construed to: (i) modify, waive, release or otherwise affect any of the terms, covenants, conditions, provisions or agreements of the Master Lease; (ii) waive any breach of the Master Lease; (iii) waive any of Master Landlord's rights as Master Landlord thereunder; (iv) enlarge or increase Master Landlord's obligations as Master Landlord thereunder; or (v) enlarge or increase Landlord's and/or Tenant's rights and benefits in excess of the rights and benefits applicable to Landlord under the Master Lease;

4. Be construed as a consent by Master Landlord to: (i) any further leasing or subletting either by Landlord or by Tenant; (ii) the assignment by Landlord to Tenant

of any rights contained in the Master Lease to renew and/or extend the term of the Master Lease or to expand the Premises; or (iii) any assignment by Landlord of the Master Lease or assignment by Tenant of the Sublease, whether or not the Sublease purports to permit the same; or

5. Be construed to permit Landlord or Tenant to assign, mortgage or encumber the Sublease or to further sublease any portion of the Tenant Premises or permit any portion of the Tenant Premises to be used or occupied by any other party.

B. The Sublease is subordinate to the Master Lease and is subject to all of its terms, covenants, conditions, provisions and agreements.

C. Tenant shall perform faithfully and be bound by all of the terms, covenants, conditions, provisions and agreements of the Master Lease applicable to the Tenant Premises for the period of the Sublease, as amended, as provided for in the Sublease.

D: The Sublease is not given as security for a loan nor shall it be given as security or otherwise encumbered by Tenant during the term of the Sublease or any subsequent agreement without Master Landlord's prior written consent.

E. Landlord shall not be released from any liability under the Master Lease, nor shall any liability of Landlord be decreased, because of Master Landlord's failure to give notice of default under or in respect of any of the terms, covenants, conditions, provisions or agreements of the Master Lease or because of Master Landlord's direct conversations, communications or other dealings with Landlord and/or Tenant.

F. In the event of Landlord's default under the provisions of the Master Lease, the rent due from Tenant under the Sublease shall be deemed assigned to Master Landlord, and Master Landlord shall have the right, but not the obligation following such default, at any time at Master Landlord's option, to give notice of such assignment to Tenant. Master Landlord shall credit Landlord with any rent received and retained by Master Landlord under such assignment, but the acceptance of any payment on account of rent from Tenant as the result of any such default shall in no manner whatsoever be deemed an attornment by Tenant to Master Landlord, or serve to release Landlord from any liability under the terms, covenants, conditions, provisions or agreements under the Master Lease. Master Landlord shall provide Tenant a copy of any notice of default delivered to Landlord under the Master Lease.

G. In the event the Master Lease shall be terminated by Master Landlord due to a default by Landlord on its obligations thereunder, or in the event of the expiration of the Master Lease prior to the expiration of the Sublease, Master Landlord shall have the right, in its sole discretion, to withdraw the consent to the Sublease hereby given and terminate the Sublease. Within thirty (30) days after the Tenant's receipt of notice, as set forth in Paragraph I below, of Master Landlord's election to terminate the Sublease, Tenant shall vacate the Tenant Premises. Upon such vacation by Tenant, Landlord and Tenant shall cause the Tenant Premises to be in

Landlord's Initials	Tenant's Initials
[ILLEGIBLE]	[ILLEGIBLE]

good condition and repair subject to ordinary wear and tear and damage by casualty. The provisions of this Paragraph shall not limit Master Landlord's remedies available pursuant to the Master Lease or at law or in equity.

H. Notwithstanding the foregoing, any other payment of rent from Tenant directly to Master Landlord, regardless of the circumstances or reasons therefor, shall in no manner whatsoever be deemed an attornment by Tenant to Master Landlord or serve to release Landlord from any liability under the terms, covenants, conditions, provisions or agreements under the Master Lease, in the absence of a specific written agreement signed by Master Landlord to such an effect.

I. In the event the Master Lease shall be terminated by Master Landlord due to a default by Landlord on its obligations thereunder, or in the event of the expiration of the Master Lease prior to the expiration of the Sublease, and in the event that Master Landlord has not elected to terminate the Sublease pursuant to Paragraph G above, then, Tenant, immediately upon receipt of unilateral written notice from Master Landlord, hereby agrees to be bound to Master Landlord under the terms, covenants and conditions of the Sublease for the balance of the term thereof remaining with the same force and effect as if Master Landlord were the Landlord under the Sublease, and Tenant shall attom to Master Landlord as its Landlord upon the succession of Master Landlord to the interest of Landlord under the Sublease, and Master Landlord, if it has sent such notice, shall accept such attomment subject to the limitations contained in this Consent. Such attomment shall be effective upon receipt of written notice from Master Landlord and shall be self-operative without the execution of any further instrument by either party hereto, except Tenant hereby agrees that it will promptly execute and deliver any instruments which Master Landlord may reasonably request to evidence such attomment.

J. Unless Master Landlord exercises its rights pursuant to Paragraph I above, the term of the Sublease shall expire and come to an end on its expiration date or any premature termination date thereof or concurrently with any premature termination of the Master Lease (whether by consent or other right, now or hereafter agreed to by Master Landlord or Landlord, or by operation of law or at Master Landlord's option in the event of Landlord's default under the Master Lease).

K. Both Landlord and Tenant shall be, and continue to be, liable for the payment of all bills rendered by Master Landlord for charges incurred by Tenant for services and materials supplied to the Tenant Premises.

L. This Consent is not assignable, nor shall this Consent be deemed a consent to any amendment, modification, extension or renewal of the Sublease (except as otherwise provided in Paragraph A.4. above) without Master Landlord's

rior express written consent.

M. Landlord and Tenant covenant and agree that under no circumstances hall Master Landlord be liable for any brokerage commission or other charge or expense in connection with the Sublease, and Landlord and Tenant agree to indemnify Master Landlord against same and

Landlord's Initials	Tenant's Initials
[ILLEGIBLE]	[ILLEGIBLE]

against any cost or expense (including, but not limited to, attorneys' fees) ncurred by Master Landlord in resisting any claim for any such brokerage ommission.

N. Landlord and Tenant understand and acknowledge that this Consent is not consent to any improvement or alteration to or in the Tenant Premises, and prior to the undertaking by Landlord or Tenant of any improvement or alteration to or in the Tenant Premises, Landlord shall obtain Master Landlord's prior ritten consent as provided for under the Master Lease, and if such consent is iven, the same will be subject to Landlord and Tenant signing Master Landlord's standard form of agreement with respect to improvement or alteration work being performed by persons other than Master Landlord.

O. Any notices, consents or demands given pursuant to this Consent by the parties hereto shall be in writing. Unless otherwise required by law or overnmental regulation, any such notice, consent or demand shall be deemed iven if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid (a) to Master Landlord, at the address indicated below or to such other address or notice party as Master Landlord may rom time-to-time designate by notice in writing to Tenant; or (b) to Tenant, at he address indicated below or to such other address or notice party as Tenant may from time-to-time designate by notice in writing to Master Landlord. Any uch notice shall be deemed given at the time same is personally delivered to he other party or forty-eight (48) hours after mailing as provided herein. During the period of any postal strike or other interference with the mails, personal delivery shall be substituted for registered or certified mail. For urposes of this Paragraph, Master Landlord's address shall be:

600 Anton Boulevard Associates
c/o Three Town Center
3315 FairviewRoad
Costa Mesa, CA. 92626
Attn: 600 Anton Boulevard Controller

and

600 Anton Boulevard Associates Suite 930
650 Town Center Drive Costa Mesa, CA.
92626 Attn: Property Manager

nd Tenant's address shall be:

Commonwealth Energy Corporation
600 Anton Boulevard
Suite 2000
Costa Mesa, CA. 92626

Landlord's	Tenant's

Initials Initials
[ILLEGIBLE] [ILLEGIBLE]

P. The execution of a copy of this Consent, without change or modification, by Landlord and by Tenant shall be a condition precedent to the effectiveness of this Consent and shall indicate your joint and several confirmation of the foregoing conditions and of your joint and several agreement to be bound thereby and shall constitute Tenant's acknowledgment that it has received a copy of the Master Lease from Landlord.

Q. This Consent shall not be effective unless and until executed by all of the parties, and when fully executed shall bind and inure to the benefit of all successors and assigns of each party.

R. As between Master Landlord and Landlord or between Master Landlord and Tenant, in the event of any conflict between the Sublease and the Master Lease, or between the Sublease and this Consent, the Master Lease or this Consent, as applicable, shall prevail.

S. Landlord hereby ratifies and confirms its obligations under the Master Lease. Landlord and Master Landlord acknowledge that neither Master Landlord nor Landlord is in default under the Master Lease and that Landlord has no existing claim against Master Landlord or right of offset or defense against enforcement by Master Landlord of the obligations of Landlord under the Master Lease.

(SIGNATURE BLOCK ON NEXT PAGE)

Landlord's Tenant's
Initials Initials
[ILLEGIBLE] [ILLEGIBLE]

This Consent contains the entire agreement of the parties hereto with respect to the subject matter hereof. This Consent may be executed in counterparts which upon execution by all parties shall constitute one integrated agreement.

MASTER LANDLORD:

600 ANTON BOULEVARD ASSOCIATES,
a California general partnership

By: Three Town Center,
a California general partnership
Managing Partner

By: [ILLEGIBLE]
Manager

By: [ILLEGIBLE]
Manager

APPROVED AS TO FORM
VAN ETTEN SUZUMOTO & BECKET LLP

BY: /s/ THOMAS L BECKET
THOMAS L BECKET, ESQ.

LANDLORD:

E*TRADE CONSUMER FINANCE CORP.,

Delaware corporation

By: [ILLEGIBLE]

Its: CTO/CAO

By: _____
Its: _____

TENANT:

COMMONWEALTH ENERGY CORPORATION,
a California corporation

By: /s/ IAN B. CARTER

Its: CEO

By: /s/ JOHN A. BARTHROP

Its: Secretary

Landlord's Initials	Tenant's Initials
[ILLEGIBLE]	[ILLEGIBLE]

EXHIBIT "A"
[the Sublease]

SUBLEASE AGREEMENT

This Sublease Agreement ("Sublease") is made effective as of the 28th day of May, 2004, (the "Effective Date") by and between E*TRADE CONSUMER FINANCE CORP., a Delaware corporation fka GANIS CREDIT CORPORATION ("Sublessor"), and Commonwealth Energy Corporation, a California corporation ("Sublessee"). Sublessor agrees to sublease to Sublessee, and Sublessee agrees to sublease from Sublessor, those certain premises situated in the City of Costa Mesa, County of Orange, State of California, consisting of approximately 38,677 square feet of space consisting of the entire 20th and 21st floors of the building known as Plaza Tower, located at 600 Anton Boulevard, Costa Mesa, California ("Building"), more particularly set forth on Exhibit "A" hereto (the "Subleased Premises").

ARTICLE 1

MASTER LEASE AND OTHER AGREEMENTS

1.1 Subordinate to Master Lease. Except as specifically set forth herein, this Sublease is subject and subordinate to all of the terms and conditions of the lease (the "Original Lease") dated on May 15, 1999, between 600 Anton Boulevard Associates, a California general partnership ("Master Lessor") and Deutsche Financial Services Corporation, a Nevada corporation, as "Lessee", as amended by that certain First Amendment to lease made and entered into the 26th day of February, 2001 (the "First Amendment") and assigned to Sublessor's predecessor in interest Ganis Credit Corporation, a California corporation (the "Assignee"). The Original Lease, the First Amendment and the Assignment are collectively referred to herein as the "Master Lease". Sublessee hereby assumes

nd agrees to perform the obligations of Lessee under the Master Lease as more particularly set forth hereafter. Unless otherwise defined, all capitalized terms used herein shall have the same meanings as given them in the Master ease. A copy of the Master Lease is attached hereto as Exhibit "B" and ncorporated herein by this reference. Sublessee shall not commit or permit to be committed any act or omission which would violate any term or condition of he Master Lease. Sublessee shall neither do nor permit anything to be done hich would cause the Master Lease to be terminated or forfeited by reason of any right of termination or forfeiture reserved or vested in Master Lessor under the Master Lease, and Sublessee shall indemnify and hold Sublessor harmless from nd against all liability, judgments, costs, demands, claims, and damages of any ind whatsoever (including, without limitation, attorneys' fees and court costs) by reason of any failure on the part of Sublessee to perform any of the bligations of Lessee under the Master Lease which Sublessee has become bligated hereunder to perform. In the event of the termination of Sublessor's interest as Lessee under the Master Lease for any reason other than for Sublessor's breach, then this Sublease shall terminate automatically upon such ermination without any liability of Master Lessor or Sublessor to Sublessee. ublessee represents and warrants to Sublessor that it has read and is familiar with the Master Lease.

1.2 Applicable Provisions. All of the terms and conditions contained in he Master Lease as they may apply to the Subleased Premises, except those directly contradicted by the terms and conditions contained in this document, nd specifically except for Paragraphs paragraph 1, 2, 3(a), the last sentence f 3(f), 4, 6(a), 6(b) (except for the first sentence), 6(c),

20(j), 24, 27, 29, 30(b), 34, 48.1, 48.3, 48.4, 48.5, 48.9, 48.10, 48.11, 48.13, 8.14, Exhibit B and First Amendment are incorporated herein and shall be terms nd conditions of this Sublease (with each reference therein to "Landlord" or "Lessor", "Tenant" or "Lessee" and "Lease" to be deemed to refer to Sublessor, Sublessee, and Sublease, respectively, as appropriate except the following rovisions that are incorporated herein, the reference to Landlord or Lessor hall mean Master Lessor only: 3(f) (first two sentences), the first sentence of 5(a), 10(a), 20(f), 48.6,) and along with all of the following terms and onditions set forth in this document, shall constitute the complete terms and onditions of this Sublease.

1.3 Obligations of Sublessor. Notwithstanding anything herein contained, he only services or rights to which Sublessee is entitled hereunder are those o which Sublessor is entitled under the Master Lease, and for all such services and rights Sublessee shall look solely to the Master Lessor under the Master ease, and the obligations of Sublessor hereunder shall be limited to using its easonable good faith efforts to obtain the performance by Master Lessor of its bligations. Sublessor shall have no liability to Sublessee or any other person for damage of any nature whatsoever as a result of the failure of Master Lessor o perform said obligations except for Master Lessor's termination of the ublessor's interest as Lessee under the Master Lease in the event of Sublessor's breach of the Master Lease, and Sublessee shall indemnify and hold Sublessor harmless from any and all claims and liability whatsoever for any such amage including, without limitation, all costs and attorneys' fees incurred in efending against same. With respect to any obligation of Sublessee to be performed under this Sublease, when the Master Lease grants Sublessor a specific umber of days to perform its obligations thereunder, Sublessee shall have two 2) fewer days to perform. With respect to approval required to be obtained by "Landlord" under the Master Lease, such consent must be obtained from Master Lessor and Sublessor and the approval of Sublessor may be withheld if Master essor's consent is not obtained.

ARTICLE 2

TERM

2.1 Term. The term of this Sublease shall commence on July 1, 2004, provided Sublessor has received Master Lessor's consent to this Sublease. This shall be referred to as the "Commencement Date." The term of this Sublease shall end on September 6, 2009, unless sooner terminated pursuant to any provision of the Master Lease applicable to the Subleased Premises (the "Expiration Date"). Sublessor shall have no obligation to Sublessee to exercise any of its options to extend under the Master Lease.

2.2 Option to Extend. Sublessee shall have no option to extend this Sublease.

2.3 Sublessor's Inability to Deliver Subleased Premises. In the event Sublessor is unable to deliver possession of the Subleased Premises on or before July 1, 2004, Sublessor shall not be liable for any damage caused thereby, nor shall this Sublease be void or voidable, but Sublessee shall not be liable for rent until such time as Sublessor offers to deliver possession of the Subleased Premises to Sublessee, but the term hereof shall not be extended by such delay.

2.4 Early Access. Upon the date of (i) mutual execution hereof; (ii) receipt of the Security Deposit and first months Base Rent; and (iii) execution of the Entry and Indemnity Agreement attached hereto as Exhibit E, Sublessee shall have reasonable access to the Subleased Premises for the purposes of installing Sublessee's furniture, fixtures and communication equipment ("Early Access"). Sublessee's access shall be subject to all the terms and conditions of the Entry and Indemnity Agreement and this Sublease, including without limitation, all insurance and maintenance obligations, and all monetary obligations except the payment of Base Rent.

ARTICLE 3

RENT

3.1 Rent. Sublessee shall pay to Sublessor each month during the term of this Sublease, rent in the amount of Seventy-One Thousand Five Hundred Fifty-Two and 45/100 Dollars ($71,552.45), in advance, on execution hereof for the first month and on or before the first of each month thereafter ("Base Rent"). Rent for partial months at the commencement or termination of this Sublease shall be prorated. Rent shall be paid to the Sublessor at its business address noted herein, or at any other place Sublessor may from time to time designate by written notice mailed or delivered to Sublessee.

3.2 Additional Rent. Any other sums payable by Sublessee under this Article 3 shall constitute and be due as additional rent. Base Rent, and additional rent if any, shall herein be referred to as "Rent".

3.2.1 Additional Rent Under the Master Lease. If Sublessor shall be charged for additional rent or other sums pursuant to any of the provisions of the Master Lease, Sublessee shall be liable, commencing January 1, 2006, for its pro rata share of increase in such additional rent or sums over the base calendar year of 2005 ("Base Year"). Sublessee's pro rata share under this Sublease shall be calculated by multiplying the total additional rent or other charge due by a fraction, the numerator of which shall be the approximate square footage of the Subleased Premises and the denominator of which shall be the approximate square footage of the entire premises under the Master Lease. All measurements noted in this Section are included in the Master Lease. Sublessee acknowledges all square footage measurements noted and relied on in this Sublease and the Master Lease are estimates, and no adjustments shall be made based upon any actual measurements which may be made. If Sublessee shall procure

ny additional services from Master Lessor, or if additional rent or other sums are incurred for Sublessee's sole benefit, Sublessee shall make such payment to Sublessor or Master Lessor, as Sublessor shall direct and such charges shall not e pro rated between Sublessor and Sublessee.

3.2.2 Additional Rent Under the Sublease. As and for additional ent, Sublessee shall be responsible, commencing January 1, 2006, for its pro ata share of expenses incurred by Sublessor for the operation and maintenance of the Premises, including, without limitation, Sublessor's insurance as "Tenant" under the Master Lease. Sublessor shall invoice Sublessee

monthly and Sublessee shall pay its pro rata share of such additional rent within ten (10) days of invoice.

ARTICLE 4

SECURITY DEPOSIT

4.1 Security Deposit. Upon execution hereof. Sublessee shall deposit with Sublessor the sum of Two Hundred Fourteen Thousand Six Hundred Fifty-Seven and 35/100 Dollars ($214,657.35) as and for a Security Deposit to secure Sublessee's full and timely performance of all of its obligations hereunder. If Sublessee fails to pay Rent or any other sums as and when due hereunder, or otherwise defaults and/or fails to perform with respect to any provision of this Sublease, Sublessor may (but shall not be obligated to) use, apply, or retain all or any portion of said deposit for payment of any sum for which Sublessee is obligated or which will compensate Sublessor for any foreseeable or unforeseeable loss or damage which Sublessor may suffer thereby including, without limitation, any damage that will result in the future through the term of the Sublease, to repair damage to the Subleased Premises, to clean the Subleased Premises at the end of the term or for any loss or damage caused by the act or omission of Sublessee or Sublessee's officers, agents, employees, independent contractors or invitees. Sublessee waives the provisions of California Civil Code Section 1950.7 and all other provisions of law now in force or that become in force after the date of execution of this Sublease that provide that Sublessor may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Sublessee or to clean the Subleased Premises. Any such use, application, or retention shall not constitute a waiver by Sublessor of its right to enforce its other remedies hereunder, at law, or in equity. If any portion of said deposit is so used, applied, or retained. Sublessee shall, within ten (10) days after delivery of written demand from Sublessor, restore said deposit to its original amount. Sublessee's failure to do so shall constitute a material breach of this Sublease, and in such event Sublessor may elect, among or in addition to other remedies, to terminate this Sublease. Sublessor shall not be a trustee of such deposit, and shall not be required to keep this deposit separate from its accounts. Sublessor alone shall be entitled to any interest or earnings thereon and Sublessor shall have the free use of same. If Sublessee fully and faithfully performs all of its obligations hereunder, then so much of the deposit as remains shall be returned to Sublessee (without payment of interest or earnings thereon) within 30 days after the later of(i) expiration or sooner termination of the term hereof, or (ii) Sublessee's surrender of possession of the Subleased Premises to Sublessor.

4.2 Reduction of the Security Deposit.

4.2.1 Provided Sublessee is not in default hereunder and has not been in default at anytime during the term hereof, at the end of the thirtieth (30th) month, the Security Deposit shall be reduced by the amount of Seventy-One Thousand Five Hundred Fifty-Two and 45/100 Dollars ($71,552.45), which Sublessor

shall apply to the thirty-first (31st) month of the term.

4.2.2 Provided Sublessee is not in default hereunder and has not been in default at anytime during the term hereof, in addition to the reduction set forth in subsection 4.2.1 above, at the end of the forty-second (42nd) month, the Security Deposit shall be reduced by the amount

of Seventy-One Thousand Five Hundred Fifty-Two and 45/100 Dollars ($71,552.45), which Sublessor shall apply to the forty-third (43rd) month of the term.

ARTICLE 5

CONDITION OF SUBLEASED PREMISES

5.1 Condition of the Subleased Premises. Sublessee acknowledges that as of the Commencement Date, the Subleased Premises, and every part thereof, are in good condition and without need of repair, and Sublessee accepts the Subleased Premises "AS IS", Sublessee having made all investigations and tests it has deemed necessary or desirable in order to establish to its own complete satisfaction the condition of the Subleased Premises. Sublessee accepts the Subleased Premises in their condition existing as of the Commencement Date, subject to all applicable zoning, municipal, county and state laws, ordinances, and regulations governing and regulating the use of the Subleased Premises and any covenants or restrictions of record. Sublessee acknowledges that neither Sublessor nor Master Lessor have made any representations or warranties as to the condition of the Subleased Premises or its present or future suitability for Sublessee's purposes.

5.2 Surrender. Sublessee shall keep the Subleased Premises, and every part thereof in good order and repair. In addition to Sublessee's requirements under the Master Lease, Sublessee shall surrender the Subleased Premises in the same condition as received, ordinary wear and tear excepted, provided Sublessee performs all necessary maintenance, repair and cleaning to maintain the Subleased Premises in the condition it was delivered at the Early Access Date. Notwithstanding the foregoing, if Master Lessor consents in writing the surrender of the Subleased Premises in any condition other than as set forth hereinabove, without liability to Sublessor, Sublessee shall be entitled to surrender the Subleased Premises in such condition as consented to by Master Lessor.

ARTICLE 6

INSURANCE

6.1 Sublessee's Insurance With respect to the Tenant's insurance under the Master Lease, the same is to be provided by Sublessee as described in the Master Lease, and such policies of insurance shall include as additional insureds Master Lessor, Sublessor and any lender as required by Master Lessor.

6.2 Waiver of Subrogation. With respect to the waiver of subrogation contained in the Master Lease, such waiver shall be deemed to be modified to constitute an agreement by and among Master Lessor, Sublessor and Sublessee (and Master Lessor's consent to this Sublease shall be deemed to constitute its approval of this modification).

ARTICLE 7

USE OF SUBLEASED PREMISES: PARKING: IMPROVEMENTS

7.1 Use of Subleased Premises Sublessee shall use the Subleased Premises only for those purposes permitted in the Master Lease.

7.2 Alterations: Improvements Sublessee shall not make any alterations, improvements, or modifications to the Subleased Premises without the express prior written consent of Sublessor and of Master Lessor, which consent by Sublessor shall not be unreasonably withheld. Sublessee shall reimburse Master Lessor and Sublessor for all costs which Master Lessor and Sublessor may incur in connection with granting approval to Sublessee for any alterations and additions, including, without limitation. Master Lessor's and Sublessor's reasonable attorneys' fees and costs. Sublessee shall provide Master Lessor and Sublessor with a set of "as-built" drawings for any such work, together with copies of all permits obtained by Sublessee in connection with performing any such work, within fifteen (15) days after completing such work. Sublessor may impose as a condition of its consent to such alterations, improvements, or modifications, such requirements as Sublessor may deem reasonable and desirable, including, but not limited to the requirement that materialmen be approved by Sublessor and that Sublessee, and/or Sublessee's contractors) post a payment and/or completion bond to guarantee the performance of its construction obligations hereunder. On termination of this Sublease, Sublessee shall remove any or all of such improvements and restore the Subleased Premises (or any part thereof) to the same condition as of the Commencement Date of this Sublease, reasonable wear and tear excepted or as otherwise instructed in writing by either Sublessor or Master Lessor. Should Sublessee fail to remove such improvements and restore the Subleased Premises on termination of this Sublease unless instruction otherwise in writing as set forth above. Sublessor shall have the right to do so, and charge Sublessee therefor, plus a service charge often percent (10%) of the costs incurred by Sublessor.

7.3 Parking. So long as Sublessee is not in default and subject to the rules and regulations imposed from time to time by Master Lessor or Sublessor, Sublessee shall have the right to the non-exclusive use of One Hundred Eleven (111) Base Parking Contracts (as defined in the Master Lease) and exclusive use of Five (5) reserved Base Parking Contracts (as defined in the Master Lease) in the common parking areas under parking contracts with the Master Lessor. Such One Hundred Sixteen (116) parking contracts shall be at no additional charge to Sublessee during the term of the Sublease. At any time during the term of this Sublease and upon thirty (30) days prior notice, Master Lessor may require Sublessee to convert up to 25% of its parking contracts to Rooftop Parking (as defined in the Master Lease). Such parking contracts and use of the parking areas are subject to the rules and regulations imposed from time to time by Master Lessor.

ARTICLE 8

ASSIGNMENT. SUBLETTING & ENCUMBRANCE

8.1 Consent Required. Sublessee shall not assign this Sublease or any interest therein nor shall Sublessee sublet, license, encumber or permit the Subleased Premises or any part

thereof to be used or occupied by others, without Sublessor's and Master Lessor's prior written consent. Sublessor's consent shall not be unreasonably withheld provided, however. Sublessor's withholding of consent shall in all events be deemed reasonable if for any reason Master Lessor's consent is not obtained. The consent by Sublessor and Master Lessor to any assignment or subletting shall not waive the need for Sublessee (and Sublessee's assignee or

ublessee) to obtain the consent of Sublessor and Master Lessor to any different or further assignment or subletting. All Conditions and Standards set forth in the Master Lease regarding assignments and subletting shall apply.

8.2 Form of Document. Every assignment, agreement, or sublease shall (i) recite that it is and shall be subject and subordinate to the provisions of this ublease, that the assignee or Sublessee assumes Sublessee's obligation ereunder, that the termination of this Sublease shall at Sublessor's sole election, constitute a termination of every such assignment or sublease, and (ii) contain such other terms and conditions as shall be reasonably requested or rovided by Sublessor's attorneys.

8.3 No Release of Sublessee. Regardless of Sublessor's consent, no ubletting or assignment shall release Sublessee of Sublessee's obligation or lter the primary liability of Sublessee to pay the Rent and to perform all ther obligations to be performed by Sublessee hereunder. The acceptance of Rent by Sublessor from any other person shall not be deemed to be a waiver by ublessor of any provision hereof. In the event of default by any assignee, ubtenant or any other successor of Sublessee, in the performance of any of the terms hereof, Sublessor may proceed directly against Sublessee without the ecessity of exhausting remedies against such assignee, subtenant or successor.

8.4 Default. An involuntary assignment shall constitute a default and Sublessor shall have the right to elect to terminate this Sublease, in which ase this Sublease shall not be treated as an asset of Sublessee.

8.5 Recapture. Notwithstanding the foregoing, in the event Sublessee requests Sublessor's consent to sublet all or any portion of the Subleased remises, or to assign this Sublease, Sublessor may in its sole discretion, lect to terminate this Sublease within fifteen (15) days after receipt of Sublessee's request by written notification to Sublessee of such election, in hich case the Sublease shall terminate effective thirty (30) days following uch election.

ARTICLE 9

DEFAULT

9.1 Default Described. The occurrence of any of the following shall onstitute a material breach of this Sublease and a default by Sublessee: (i) ailure to pay Rent or any other amount within three (3) business days after due; (ii) all those items of default set forth in the Master Lease which remain ncured after the cure period provided in the Master Lease; or (iii) Sublessee's ailure to perform timely and subject to any cure periods any other material provision of this Sublease or the Master Lease as incorporated herein.

9.2 Sublessor's Remedies. Sublessor shall have the remedies set forth in the Master Lease as if Sublessor is Master Lessor. These remedies are not exclusive; they are cumulative and in addition to any remedies now or later llowed by law.

9.3 Sublessee's Right to Possession Not Terminated. Sublessor has the emedy described in California Civil Code Section 1951.4 (lessor may continue ease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations). Sublessor may continue this Sublease in full force and effect, and ublessor shall have the right to collect rent and other sums when due. During he period Sublessee is in default. Sublessor may enter the Subleased Premises and relet them, or any part of them, to third parties for Sublessee's account nd alter or install locks and other security devices at the Subleased Premises.

Sublessee shall be liable immediately to Sublessor for all costs Sublessor incurs in reletting the Subleased Premises, including, without limitation, attorneys' fees, brokers' commissions, expenses of remodeling the Subleased Premises required by the reletting, and like costs. Reletting may be for a period equal to, shorter or longer than the remaining term of this Sublease and rent received by Sublessor shall be applied to (i) first, any indebtedness from Sublessee to Sublessor other than rent due from Sublessee; (ii) second, all costs incurred by Sublessor in reletting, including, without limitation, brokers' fees or commissions and attorneys fees, the cost of removing and storing the property of Sublessee or any other occupant, and the costs of repairing, altering, maintaining, remodeling or otherwise putting the Subleased Premises into condition acceptable to a new Sublessee or Sublessees; (iii) third, rent due and unpaid under this Sublease. After deducting the payments referred to in this subsection 9.3, any sum remaining from the rent Sublessor receives from reletting shall be held by Sublessor and applied in payment of future rent and other amounts as rent and such amounts become due under this Sublease. In no event shall Sublessee be entitled to any excess rent received by Sublessor.

9.4 All Sums Due and Payable as Rent. Sublessee shall also pay without notice, or where notice is required under this Sublease, immediately upon demand without any abatement, deduction, or setoff, as additional rent all sums, impositions, costs, expenses, and other payments which Sublessee in any of the provisions of this Sublease assumes or agrees to pay, and, in case of any nonpayment thereof, Sublessor shall have, in addition to all other rights and remedies, all the rights and remedies provided for in this Sublease or by law in the case of nonpayment of rent.

9.5 No Waiver. Sublessor may accept Sublessee's payments without waiving any rights under the Sublease, including rights under a previously served notice of default. No payment by Sublessee or receipt by Sublessor of a lesser amount than any installment of rent due or other sums shall be deemed as other than a payment on account of the amount due, nor shall any endorsement or statement on any check or accompanying any check or payment be deemed an accord and satisfaction; and Sublessor may accept such check or payment without prejudice of Sublessor's right to recover the balance of such rent or other sum or pursue any other remedy provided in this Sublease, at law or in equity. If Sublessor accepts payments after serving a notice of default. Sublessor may nevertheless commence and pursue an action to enforce rights and remedies under the previously served notice of default without giving Sublessee any further notice or demand. Furthermore, the Sublessor's acceptance of rent from Sublessee when the Sublessee is holding over without express written consent does not convert Sublessee's tenancy from a tenancy at sufferance to a month-to-month tenancy. No waiver of any provision of this

Sublease shall be implied by any failure of Sublessor to enforce any remedy for the violation of that provision, even if that violation continues or is repeated. Any waiver by Sublessor of any provision of this Sublease must be in writing. Such waiver shall affect only the provisions specified and only for the time and in the manner stated in the writing. No delay or omission in the exercise of any right or remedy by Sublessor shall impair such right or remedy or be construed as a waiver thereof by Sublessor. No act or conduct of Sublessor, including, without limitation the acceptance of keys to the Subleased Premises shall constitute acceptance or the surrender of the Subleased Premises by Sublessee before the Expiration Date. Only written notice from Sublessor to Sublessee of acceptance shall constitute such acceptance or surrender of the Subleased Premises. Sublessor's consent to or approval of any act by Sublessee which requires Sublessor's consent or approval shall not be deemed to waive or render unnecessary Sublessor's consent to or approval of any subsequent act by Sublessee.

9.6 Sublessor Default. For purposes of this Sublease, Sublessor shall not be deemed in default hereunder unless and until Sublessee shall first deliver to Sublessor thirty (30) days' prior written notice, and Sublessor shall fail to cure said default within said thirty (30) day period, or in the event Sublessor shall reasonably require in excess of thirty (30) days to cure said default, shall fail to commence said cure with said thirty (30) day period, and thereafter diligently to prosecute the same to completion.

9.7 Notice of Event of Default under Master Lease. Sublessor shall notify Sublessee of any Event of Default under the Master Lease, or of any other event of which Sublessor has actual knowledge which will impair Sublessee's ability to conduct its normal business at the Subleased Premises, as soon as reasonably practicable following Sublessor's receipt of notice from Master Lessor of an Event of Default or Sublessor's actual knowledge of such impairment.

ARTICLE 10

CONSENT OF MASTER LESSOR

10.1 Precondition. The Master Lease requires that Sublessor obtain the consent of Master Lessor to any subletting by Sublessor. This Sublease shall not be effective unless and until Master Lessor signs a consent to this subletting satisfactory to Sublessor.

ARTICLE 11

HAZARDOUS MATERIALS

11.1 *Hazardous Materials. Notwithstanding anything contained herein or in* the Master Lease to the contrary, Sublessee shall not store, use, or dispose of any Hazardous Material (as such is defined in the Master Lease) on, under, or about the Subleased Premises.

11.2 Indemnity. Sublessee shall be solely responsible for and shall defend, indemnify and hold Sublessor and its partners, employees and agents harmless from and against all claims, penalties, expenses and liabilities, including attorneys' and consultants' fees and costs, arising out of or caused in whole or in part, directly or indirectly, by or in connection with its storage, use, disposal or discharge of Hazardous Materials whether in violation of this section or not, or

Sublessee's failure to comply with any Hazardous Materials law. Sublessee shall further be solely responsible for and shall defend, indemnify and hold Sublessor harmless from and against any and all claims, costs and liabilities, including attorneys' and consultants' fees and costs, arising out of or in connection with the removal, cleanup, detoxification, decontamination and restoration work and materials necessary to return the Subleased Premises to their condition existing prior to Sublessee's storage, use or disposal of the Hazardous Materials on the Subleased Premises. For the purposes of the indemnity provisions hereof, any acts or omissions of Sublessee or by employees, agents, assignees, contractors or subcontractors of Sublessee (whether or not they are negligent, intentional or unlawful) shall be strictly attributable to Sublessee. Sublessee's obligations under this section shall survive the termination of this Sublease.

ARTICLE 12

MISCELLANEOUS

12.1 Conflict with Master Lease: Interpretation. In the event of any

conflict between the provisions of the Master Lease and this Sublease, the Master Lease shall govern and control except to the extent directly contradicted by the terms of this Sublease. No presumption shall apply in the interpretation or construction of this Sublease as a result of Sublessor having drafted the whole or any part hereof.

12.2 Remedies Cumulative. The rights, privileges, elections, and remedies of Sublessor in this Sublease, at law, and in equity are cumulative and not alternative.

12.3 Waiver of Redemption. Sublessee hereby expressly waives any and all rights of redemption to which it may be entitled by or under any present or future laws in the event Sublessor shall obtain a judgment for possession of the Subleased Premises.

12.4 Damage and Destruction: Condemnation. Notwithstanding anything contained in the Master Lease to the contrary, in the event of any damage, destruction, casualty, condemnation or threat of condemnation affecting the Subleased Premises, Rent payable hereunder shall not be abated except to the extent that Rent is abated under the Master Lease with respect to the Subleased Premises. Sublessee shall have no right to terminate this Sublease in connection with any damage, destruction, casualty, condemnation or threat of condemnation except to the extent the Master Lease is also terminated as to the Subleased Premises.

12.5 Holding Over. Sublessee shall have no right to Holdover. If Sublessee does not surrender and vacate the Subleased Premises at Expiration Date of this Sublease, Sublessee shall be a tenant at sufferance and the parties having agreed that the Rent shall be at the greater of (1) the daily rate of two hundred percent (200%) of the monthly Rent set forth in Article 3, divided by thirty (30) days or (2) the daily rate of two hundred percent (200%) of the Rent due to Master Lessor from Sublessor under the Master Lease for the Subleased Premises divided by thirty (30) days, together with any additional rent due and payable during such period of time. In connection with the foregoing. Sublessor and Sublessee agree that the reasonable rental value of the Subleased Premises following the Expiration Date of the Sublease shall be the amounts set forth above per month. Sublessor and Sublessee acknowledge and agree that, under the

circumstances existing as of the Effective Date, it is impracticable and/or extremely difficult to ascertain the reasonable rental value of the Subleased Premises on the Expiration Date and that the reasonable rental value established herein is a reasonable estimate of the damage that Sublessor would suffer as the result of the failure of Sublessee to timely surrender possession of the Subleased Premises. The parties acknowledge that the liquidated damages established herein is not intended as a forfeiture or penalty within the meaning of California Civil Code sections 3275 or 3369, but is intended to constitute liquidated damages to Sublessor pursuant to California Civil Code sections 1671, 1676, and 1677. Notwithstanding the foregoing, and in addition to all other rights and remedies on the part of Sublessor if Sublessee fails to surrender the Subleased Premises upon the termination or expiration of this Sublease, in addition to any other liabilities to Sublessor accruing therefrom, Sublessee shall indemnify, defend and hold Sublessor harmless from all claims resulting from such failure, including, without limitation, any claims by any third parties based on such failure to surrender and any lost profits to Sublessor resulting therefrom.

12.6 Signage. Sublessee shall not place any signs on or about the Subleased Premises without Sublessor's and Master Lessor's prior written consent. All signs shall be at Sublessee's sole cost and shall comply with the terms of the Master Lease and with all local, federal and state rules,

egulations, statutes, and ordinances at all times during the term hereof. Sublessee acknowledges and agrees that its request for consent to signage shall be limited to Building standard suite signage at the Subleased Premises and lobby directory signage. Sublessee, at Sublessee's cost, shall remove all such signs and graphics prior to the termination of this Sublease and repair any damage caused by such removal. Sublessor shall use commercially reasonable efforts, without the requirement to incur any costs, to assist Sublessee in obtaining such signage

12.7 Offer. Preparation of this Sublease by either Sublessor or Sublessee or either parties' agent and submission of same to Sublessor or Sublessee shall not be deemed an offer to Sublease. This Sublease is not intended to be binding until executed and delivered by all Parties hereto.

12.8 Due Authority. If Sublessee signs as a corporation, each of the persons executing this Sublease on behalf of Sublessee represent and warrant that they have the authority to bind Sublessee, Sublessee has been and is qualified to do business in the State of California, that the corporation has full right and authority to enter into this Sublease, and that all persons signing on behalf of the corporation were authorized to do so by appropriate corporate actions. If Sublessee signs as a partnership, trust or other legal entity, each of the persons executing this Sublease on behalf of Sublessee represent and warrant that they have the authority to bind Sublessee, Sublessee has complied with all applicable laws, rules and governmental regulations relative to its right to do business in the State of California and that such entity on behalf of the Sublessee was authorized to do so by any and all appropriate partnership, trust or other actions. Sublessee agrees to furnish promptly upon request a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the authorization of Sublessee to enter into this Sublease.

12.9 Multiple Counterparts. This Sublease may be executed in two or more counterparts, which when taken together shall constitute one and the same instrument. The

parties contemplate that they may be executing counterparts of this Sublease transmitted by facsimile and agree and intend that a signature by facsimile machine shall bind the party so signing with the same effect as though the signature were an original signature.

12.10 Building Contaminants. To prevent the contamination, growth, or deposit of any mold, mildew, bacillus, virus, pollen, or other micro-organism (collectively, "Biologicals") and the deposit, release or circulation of any indoor contaminants including emissions from paint, carpet and drapery treatments, cleaning, maintenance and construction materials and supplies, pesticides, pressed wood products, insulation, and other materials and products (collectively with Biologicals, "Contaminants") that could adversely affect the health, safety or welfare of any tenant, employee, or other occupant of the Building or their invitees (each, an "Occupant"), Sublessee shall, at Sublessee's sole cost and expense, at all times during the term hereof (1) operate the Subleased Premises in such a manner to reasonably prevent or minimize the accumulation of stagnant water and moisture in planters, kitchen appliances and vessels, carpeting, insulation, water coolers, and any other locations where stagnant water or moisture could accumulate, and (2) otherwise operate the Subleased Premises to prevent the generation, growth, deposit, release or circulation of any Contaminants.

ARTICLE 13

USE OF FURNITURE

13.1 Use. Sublessee may use certain furniture, work stations and office equipment located in the Subleased Premises as set forth on Exhibit "C" "Furniture"). Sublessee accepts the Furniture in its "as is" condition. Sublessor makes no warranty, other than as to title, as to the condition of the Furniture or its present or future suitability for Sublessee's purposes. Upon termination of this Sublease, Sublessee shall return the Furniture to Sublessor in the same condition as received, ordinary wear and tear excepted conditioned on the obligation of Sublessee to use the Furniture in a careful and proper manner and to clean and repair the Furniture in the manner necessary to maintain the Furniture in the condition it was initially provided to Sublessee. Sublessee shall be liable for any damage to the Furniture and solely responsible for all costs associated with the maintenance, cleaning and repair of the Furniture.

13.2 Right to Purchase Furniture. Provided (i) Sublessee is not in default under the terms and conditions of this Sublease or the Master Lease hereunder and (ii) the Expiration Date under the Sublease occurs concurrently with the expiration or sooner termination of the Master Lease then on the Expiration Date, Sublessee shall have the option of purchasing the Furniture for the sum of One Dollar ($1.00), pursuant to the Bill of Sale attached hereto as Exhibit "D".

ARTICLE 14

BROKER'S COMMISSIONS

14.1 Commission. Sublessor and Sublessee represent and warrant to each other that each has dealt with the following brokers South Coast Plaza (Sublessor's Broker) and CB Richard Ellis (Sublessee's Broker) and with no other agent, finder, or other such person with respect to this Sublease and each agrees to indemnify and hold the other harmless from any claim

asserted against the other by any broker, agent, finder, or other such person not identified above as Sublessor's Broker or Sublessee's Broker. The Commission to the Brokers is pursuant to separate agreement.

ARTICLE 15

NOTICES AND PAYMENTS

15.1 Certified Mail. Any notice, demand, request, consent, approval, submittal or communication that either party desires or is required to give to the other party or any other person shall be in writing and either served personally or sent by prepaid, first-class certified mail or commercial overnight delivery service. Such Notice shall be effective on the date of actual receipt (in the case of personal service or commercial overnight delivery service) or two days after deposit in the United States mail, to the following addresses:

Sublessor at:	Mark Ravesloot Executive Vice President CB Richard Ellis 200 Park Avenue New York, NY 10166
With a copy to:	Hopkins & Carley 70 S First Street San Jose, CA 951139 Attention: Julie A. Frambach, Esq.
To the Sublessee:	At the Subleased Premises, whether or not

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