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How electricity retailer TXU Energy emerged from bankruptcy as a hot property

By Mitchell Schnurman | January 17, 2017

TXU Energy never got much respect, despite being the largest electricity retailer in Texas. Now it’s emerged as a surprising breakout star from one of the biggest bankruptcies in the power industry.

Customer defections are down sharply since 2012, electricity sales are up and a key financial metric, free cash flow, has improved by about $100 million since the summer.

Its parent company, rebranded as Vistra Energy, emerged from Chapter 11 in October. It recently projected a profit of $150 million for 2017, up from an estimated loss of $587 million last year.

Vistra includes Luminant, a giant power generator with coal and natural gas plants, and a nuclear facility. When Vistra raised guidance estimates last month, one of the primary drivers was the “continued outperformance by TXU Energy,” it said.

Elsewhere, it cited the “attractive margins” in TXU’s business, the unit’s “leading profitability” and the advantages of an energy model that integrates power generation and electricity retailing.

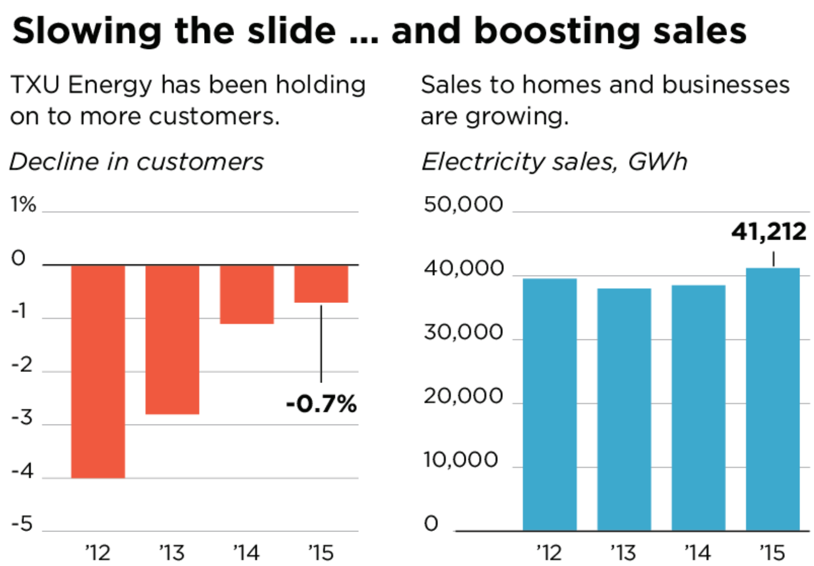
“We believe this is a unique company structure in the competitive” market, Vistra said in a public filing last month.

TXU Energy had 1.7 million customers in Texas in 2015. That included 25 percent of the residents and 17 percent of the businesses in ERCOT, the huge electric grid that covers most of the state.

TXU Energy used to be part of TXU Corp. (later named Energy Future Holdings), along with Luminant and Oncor. Its corporate siblings always got most of the attention because they were considered more vital and valuable. There aren’t many giant power producers like Luminant or giant regulated utilities like Oncor.

In contrast, TXU Energy has over 100 competitors in a rough-and-tumble deregulated marketplace. Rivals include well-known brands such as Reliant, Direct Energy and Ambit, and dozens of small firms with little-known names and low overhead costs.

Since Texas opened the competitive retail electric market in 2002, TXU Energy and other incumbents have been losing customers steadily. That was the natural result of introducing competition into a commodity business — and a major goal of Texas lawmakers and regulators.



SOURCE: Company presentation and filings
Laurie Joseph/Staff Artist

The state pushed choice in the electric market and banked on competition to reduce prices and drive innovation. Indeed, most people have learned to shop around. As of last March, 92 percent of all customers in the competitive market had exercised their ability to switch providers, the Public Utility Commission reported recently.

TXU Energy has lost over 1 million residential customers in the Oncor region since competition began. But it's slowed the bleeding in a major way, and it's been picking up business from other parts of the state.

The company has been aggressive in designing innovative electric plans and marketing them. "Free nights and weekends" has been a big hit, along with offers for 50 percent off and cash-back rewards. For several years, TXU also worked on improving customer service, and it has one of the lowest complaint rates in the state, according to the PUC.

"They've been able to get people to come to them, and their customers are not just buying on price anymore," said Bruce Bullock, director of the Maguire Energy Institute at Southern Methodist University. "They've created a modern power retailer, and they've done it better than anybody."

TXU Energy has about 900 employees and is based in Irving's Las Colinas development. Parent company Vistra has its headquarters in downtown Dallas.

Oncor, also based in Dallas, is in the process of being sold to NextEra Energy of Florida for over $18 billion. The PUC is reviewing the deal, and the outcome won't affect TXU's plans.

Almost four years ago, when its parent company was drowning in debt and already marching toward bankruptcy, many questioned the future of TXU Energy. Jim Hempstead of Moody's Investors Service noted that no electricity retailer of that size had been in bankruptcy before, and he expected it to suffer the most.

"We think the primary value destruction exists with the retail electric provider business, because formerly sticky retail customers that have been paying robust margins to TXU Energy might be more inclined to leave when they read the daily headlines in local papers," Hempstead wrote in March 2013.

In 2012, TXU Energy had lost 4 percent

of its customer base, so there was reason for concern. But then it started to improve retention rates. The promotional programs, the focus on customer service and the strengthening of the brand all helped.

In 2015, TXU lost fewer than 1 percent of residential customers. And in two years, electricity sales to businesses grew more than 25 percent.

That's notable because there are always no-frills retailers offering electricity for cheaper. But as the market has matured, the lowest price for electricity doesn't always win, said John Tough, chief revenue officer for chooseenergy.com, an online portal.

His site offers electric plans from TXU and over half a dozen other retailers. He was impressed that TXU had maintained a strong market share in the commercial segment.

"TXU has a slight premium for better service, and you just have to be within a range to compete," Tough said. "But marketing a commodity is a hard thing to do. Give 'em some credit."