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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

☐ **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: 001-36559

Spark Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**46-5453215**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12140 Wickchester Ln, Suite 100
Houston, Texas 77079

(Address of principal executive offices)

(713) 600-2600
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbols(s)	Name of exchange on which registered
Class A common stock, par value $0.01 per share	SPKE	The NASDAQ Global Select Market
8.75% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value $0.01 per share	SPKEP	The NASDAQ Global Select Market

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ Smaller reporting company ☐

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 14,627,284 shares of Class A common stock, 20,800,000 shares of Class B common stock and 3,567,543 shares of Series A Preferred Stock outstanding as of November 2, 2020.

SPARK ENERGY, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2020

Cautionary Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. These forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), can be identified by the use of forward-looking terminology including "may," "should," "could," "likely," "will," "believe," "expect," "anticipate," "estimate," "continue," "plan," "intend," "project," or other similar words. All statements, other than statements of historical fact included in this Report, regarding strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans, objectives and beliefs of management are forward-looking statements. Forward-looking statements appear in a number of places in this Report and may include statements about expected impacts of COVID-19, business strategy and prospects for growth, customer acquisition costs, legal proceedings, ability to pay cash dividends, cash flow generation and liquidity, availability of terms of capital, competition and government regulation and general economic conditions. We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, expected, projected or assumed in the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give any assurance that such expectations will prove correct.

The forward-looking statements in this Report are subject to risks and uncertainties. Important factors that could cause actual results to materially differ from those projected in the forward-looking statements include, but are not limited to:

- evolving risks, uncertainties and impacts relating to COVID-19, including the geographic spread, the severity of the disease, the scope and duration of the COVID-19 outbreak, actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact, and the potential for continuing negative impacts of COVID-19 on economies and financial markets;
- changes in commodity prices;
- the sufficiency of risk management and hedging policies and practices;
- the impact of extreme and unpredictable weather conditions, including hurricanes and other natural disasters;
- federal, state and local regulations, including the industry's ability to address or adapt to potentially restrictive new regulations that may be enacted by public utility commissions;
- our ability to borrow funds and access credit markets;
- restrictions in our debt agreements and collateral requirements;
- credit risk with respect to suppliers and customers;
- changes in costs to acquire customers as well as actual attrition rates;
- accuracy of billing systems;
- our ability to successfully identify, complete, and efficiently integrate acquisitions into our operations;
- significant changes in, or new changes by, the independent system operators ("ISOs") in the regions we operate;
- competition; and
- the "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 and in "Item 1A— Risk Factors" of this Report, and in our other public filings and press releases.

You should review the risk factors and other factors noted throughout or incorporated by reference in this Report that could cause our actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements speak only as of the date of this Report. Unless required by law, we disclaim any obligation to publicly update or revise these statements whether as a result of new information, future events or otherwise. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARK ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share counts)
(unaudited)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 75,347	$ 56,664
Restricted cash	33	1,004
Accounts receivable, net of allowance for doubtful accounts of $5,156 at September 30, 2020 and $4,797 at December 31, 2019	63,810	113,635
Accounts receivable—affiliates	4,579	2,032
Inventory	1,796	2,954
Fair value of derivative assets	761	464
Customer acquisition costs, net	8,326	8,649
Customer relationships, net	12,083	13,607
Deposits	5,636	6,806
Renewable energy credit asset	15,296	24,204
Other current assets	9,090	6,109
Total current assets	196,757	236,128
Property and equipment, net	2,867	3,267
Fair value of derivative assets	75	106
Customer acquisition costs, net	885	9,845
Customer relationships, net	8,710	17,767
Deferred tax assets	26,499	29,865
Goodwill	120,343	120,343
Other assets	4,992	5,647
Total assets	$ 361,128	$ 422,968
Liabilities, Series A Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 29,360	$ 48,245
Accounts payable—affiliates	355	1,009
Accrued liabilities	28,682	37,941
Renewable energy credit liability	20,179	33,120
Fair value of derivative liabilities	3,405	19,943
Other current liabilities	1,308	1,697
Total current liabilities	83,289	141,955
Long-term liabilities:		
Fair value of derivative liabilities	459	495
Long-term portion of Senior Credit Facility	100,000	123,000
Other long-term liabilities	51	217
Total liabilities	183,799	265,667
Commitments and contingencies (Note 12)		
Series A Preferred Stock, par value $0.01 per share, 20,000,000 shares authorized, 3,707,256 shares issued and 3,567,543 shares outstanding at September 30, 2020 and 3,707,256 shares issued and 3,677,318 shares outstanding at December 31, 2019	87,288	90,015
Stockholders' equity:		
Common Stock:		
Class A common stock, par value $0.01 per share, 120,000,000 shares authorized, 14,771,878 shares issued and 14,627,284 shares outstanding at September 30, 2020 and 14,478,999 shares issued and 14,379,553 shares outstanding at December 31, 2019	148	145
Class B common stock, par value $0.01 per share, 60,000,000 shares authorized, 20,800,000 shares issued and outstanding at September 30, 2020 and 20,800,000 shares issued and outstanding at December 31, 2019	209	209
Additional paid-in capital	54,169	51,842
Accumulated other comprehensive loss	(40)	(40)
Retained earnings	12,284	1,074
Treasury stock, at cost, 144,594 shares at September 30, 2020 and 99,446 shares at December 31, 2019	(2,406)	(2,011)
Total stockholders' equity	64,364	51,219
Non-controlling interest in Spark HoldCo, LLC	25,677	16,067
Total equity	90,041	67,286
Total liabilities, Series A Preferred Stock and Stockholders' equity	$ 361,128	$ 422,968

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

SPARK ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Retail revenues	$ 141,188	$ 207,341	$ 436,166	$ 625,300
Net asset optimization (expense) revenues	(558)	(254)	(319)	2,242
Total Revenues	140,630	207,087	435,847	627,542
Operating Expenses:				
Retail cost of revenues	85,118	123,867	269,546	477,881
General and administrative	19,080	27,629	66,087	94,352
Depreciation and amortization	7,278	9,496	24,084	31,963
Total Operating Expenses	111,476	160,992	359,717	604,196
Operating income	29,154	46,095	76,130	23,346
Other (expense)/income:				
Interest expense	(1,487)	(2,174)	(4,233)	(6,392)
Interest and other income	80	322	293	1,005
Total other expenses	(1,407)	(1,852)	(3,940)	(5,387)
Income before income tax expense	27,747	44,243	72,190	17,959
Income tax expense	5,141	6,567	12,739	3,022
Net income	$ 22,606	$ 37,676	$ 59,451	$ 14,937
Less: Net income attributable to non-controlling interests	12,993	22,142	34,200	5,736
Net income attributable to Spark Energy, Inc. stockholders	$ 9,613	$ 15,534	$ 25,251	$ 9,201
Less: Dividends on Series A Preferred Stock	1,951	2,026	5,490	6,080
Net income attributable to stockholders of Class A common stock	$ 7,662	$ 13,508	$ 19,761	$ 3,121
Other comprehensive income, net of tax:				
Currency translation loss	$ —	$ (45)	$ —	$ (143)
Other comprehensive loss	—	(45)	—	(143)
Comprehensive income	$ 22,606	$ 37,631	$ 59,451	$ 14,794
Less: Comprehensive income attributable to non-controlling interests	12,993	22,116	34,200	5,652
Comprehensive income attributable to Spark Energy, Inc. stockholders	$ 9,613	$ 15,515	$ 25,251	$ 9,142
Net income attributable to Spark Energy, Inc. per share of Class A common stock				
Basic	$ 0.52	$ 0.94	$ 1.36	$ 0.22
Diluted	$ 0.52	$ 0.93	$ 1.35	$ 0.22
Weighted average shares of Class A common stock outstanding				
Basic	14,653	14,380	14,531	14,254
Diluted	14,671	14,514	14,655	14,429

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

SPARK ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands)
(unaudited)

Nine Months Ended September 30, 2020

	Issued Shares of Class A Common Stock	Issued Shares of Class B Common Stock	Treasury Stock	Class A Common Stock	Class B Common Stock	Treasury Stock	Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2019	14,479	20,800	(99)	$ 145	$ 209	$ (2,011)	$ (40)	$ 51,842	$ 1,074	$ 51,219	$ 16,067	$ 67,286
Impact of adoption of ASC 326	—	—	—	—	—	—	—	—	(633)	(633)	—	(633)
Balance at January 1, 2020	14,479	20,800	(99)	145	209	(2,011)	(40)	51,842	441	50,586	16,067	66,653
Stock based compensation	—	—	—		—	—	—	2,061	—	2,061	—	2,061
Restricted stock unit vesting	293	—	—	3	—	—	—	(915)	—	(912)	—	(912)
Consolidated net income	—	—	—	—	—	—	—	—	25,251	25,251	34,200	59,451
Distributions paid to non-controlling unit holders	—	—	—	—	—	—	—	—	—	—	(23,409)	(23,409)
Dividends paid to Class A common stockholders ($0.54375 per share)	—	—	—	—	—	—	—	—	(7,917)	(7,917)	—	(7,917)
Dividends paid to Preferred Stockholders	—	—	—	—	—	—	—	—	(5,491)	(5,491)	—	(5,491)
Treasury Shares	—	—	(45)	—	—	(395)	—		—	(395)	—	(395)
Changes in ownership interest	—	—	—	—	—	—	—	1,181	—	1,181	(1,181)	—
Balance at September 30, 2020	14,772	20,800	(144)	$ 148	$ 209	$ (2,406)	$ (40)	$ 54,169	$ 12,284	$ 64,364	$ 25,677	$ 90,041

	Three Months Ended September 30, 2020											
	Issued Shares of Class A Common Stock	**Issued Shares of Class B Common Stock**	**Treasury Stock**	**Class A Common Stock**	**Class B Common Stock**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Additional Paid-in Capital**	**Retained Earnings (Deficit)**	**Total Stockholders' Equity**	**Non-controlling Interest**	**Total Equity**
Balance at June 30, 2020	14,772	20,800	(99)	$ 148	$ 209	$ (2,011)	$ (40)	$ 53,409	$ 7,275	$ 58,990	$ 22,829	$ 81,819
Stock based compensation	—	—	—	—	—	—	—	289	—	289	—	289
Restricted stock unit vesting	—	—	—	—	—	—	—	—	—	—	—	—
Consolidated net income	—	—	—	—	—	—	—	—	9,613	9,613	12,993	22,606
Distributions paid to non-controlling unit holders	—	—	—	—	—	—	—	—	—	—	(9,674)	(9,674)
Dividends paid to Class A common stockholders ($0.18125 per share)	—	—	—	—	—	—	—	—	(2,652)	(2,652)	—	(2,652)
Dividends paid to Preferred Stockholders	—	—	—	—	—	—	—	—	(1,952)	(1,952)	—	(1,952)
Treasury Shares	—	—	(45)	—	—	(395)	—	—	—	(395)	—	(395)
Changes in Ownership Interest	—	—	—	—	—	—	—	471	—	471	(471)	—
Balance at September 30, 2020	14,772	20,800	(144)	$ 148	$ 209	$ (2,406)	$ (40)	$ 54,169	$ 12,284	$ 64,364	$ 25,677	$ 90,041

	Nine Months Ended September 30, 2019											
	Issued Shares of Class A Common Stock	Issued Shares of Class B Common Stock	Treasury Stock	Class A Common Stock	Class B Common Stock	Treasury Stock	Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2018	14,178	20,800	(99)	$ 142	$ 209	$ (2,011)	$ 2	$ 46,157	$ 1,307	$ 45,806	$ 44,488	$ 90,294
Stock based compensation	—	—	—	—	—	—	—	3,888	—	3,888	—	3,888
Restricted stock unit vesting	301	—	—	3	—	—	—	(1,107)	—	(1,104)	—	(1,104)
Consolidated net income	—	—	—	—	—	—	—	—	9,201	9,201	5,736	14,937
Foreign currency translation adjustment for equity method investee	—	—	—	—	—	—	(59)	—	—	(59)	(84)	(143)
Gain on settlement of TRA, net of tax	—	—	—	—	—	—	—	12,179	—	12,179	—	12,179
Distributions paid to non-controlling unit holders	—	—	—	—	—	—	—	—	—	—	(28,108)	(28,108)
Dividends paid to Class A common stockholders ($0.54375 per share)	—	—	—	—	—	—	—	(5,170)	(2,606)	(7,776)	—	(7,776)
Changes in ownership interest	—	—	—	—	—	—	—	(223)	—	(223)	223	—
Dividends to Preferred Stockholders	—	—	—	—	—	—	—	(2,029)	(4,053)	(6,082)	—	(6,082)
Proceeds from disgorgement of stockholder short-swing profits	—	—	—	—	—	—	—	55	—	55	—	55
Acquisition of Customers from Affiliate	—	—	—	—	—	—	—	—	—	—	(10)	(10)
Balance at September 30, 2019	14,479	20,800	(99)	$ 145	$ 209	$ (2,011)	$ (57)	$ 53,750	$ 3,849	$ 55,885	$ 22,245	$ 78,130

Three Months Ended September 30, 2019												
	Issued Shares of Class A Common Stock	**Issued Shares of Class B Common Stock**	**Treasury Stock**	**Class A Common Stock**	**Class B Common Stock**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Additional Paid-in Capital**	**Retained Earnings (Deficit)**	**Total Stockholders' Equity**	**Non-controlling Interest**	**Total Equity**
Balance at June 30, 2019	14,479	20,800	(99)	$ 145	$ 209	$ (2,011)	$ (38)	$ 42,329	$ (7,053)	$ 33,581	$ 18,124	$ 51,705
Stock based compensation	—	—	—	—	—	—	—	1,377	—	1,377	—	1,377
Consolidated Net income	—	—	—	—	—	—	—	—	15,534	15,534	22,142	37,676
Foreign currency translation adjustment for equity method investee	—	—	—	—	—	—	(19)	—	—	(19)	(26)	(45)
Gain on settlement of TRA, net of tax	—	—	—	—	—	—	—	12,179	—	12,179	—	12,179
Distributions paid to non-controlling unit holders	—	—	—	—	—	—	—	—	—	—	(20,130)	(20,130)
Dividends paid to Class A common stockholders ($0.18125 per share)	—	—	—	—	—	—	—	—	(2,606)	(2,606)	—	(2,606)
Dividends to Preferred Stockholders	—	—	—	—	—	—	—	—	(2,026)	(2,026)	—	(2,026)
Changes in ownership interest	—	—	—	—	—	—	—	(2,135)	—	(2,135)	2,135	—
Balance at September 30, 2019	14,479	20,800	(99)	$ 145	$ 209	$ (2,011)	$ (57)	$ 53,750	$ 3,849	$ 55,885	$ 22,245	$ 78,130

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

SPARK ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash flows from operating activities:		
Net income	$ 59,451	$ 14,937
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization expense	24,084	31,965
Deferred income taxes	3,366	34
Stock based compensation	2,134	4,053
Amortization of deferred financing costs	966	1,002
Bad debt expense	4,613	9,185
Loss on derivatives, net	14,015	42,690
Current period cash settlements on derivatives, net	(32,682)	(32,593)
Other	—	(608)
Changes in assets and liabilities:		
Decrease in accounts receivable	44,579	40,008
(Increase) decrease in accounts receivable—affiliates	(2,546)	1,139
Decrease in inventory	1,158	298
Increase in customer acquisition costs	(1,763)	(13,608)
Decrease in prepaid and other current assets	6,268	9,211
Increase in other assets	(316)	(394)
Decrease in accounts payable and accrued liabilities	(39,997)	(27,721)
Decrease in accounts payable—affiliates	(655)	(2,114)
Increase (decrease) in other current liabilities	1,439	(374)
Decrease in other non-current liabilities	(166)	(25)
Net cash provided by operating activities	83,948	77,085
Cash flows from investing activities:		
Purchases of property and equipment	(1,219)	(577)
Acquisition of Customers from Affiliate	—	(5,913)
Net cash used in investing activities	(1,219)	(6,490)
Cash flows from financing activities:		
Buyback of Series A Preferred Stock	(2,282)	(111)
Borrowings on notes payable	420,000	224,500
Payments on notes payable	(443,000)	(245,000)
Net borrowings on subordinated debt facility	—	504
Payments on the Verde promissory note	—	(2,036)
Proceeds from disgorgement of stockholders short-swing profits	—	55
Purchase of Treasury Stock	(395)	—
Restricted stock vesting	(1,107)	(1,348)
Payment for acquired customers	(972)	—
Payment of Tax Receivable Agreement liability	—	(11,239)
Payment of dividends to Class A common stockholders	(7,917)	(7,776)
Payment of distributions to non-controlling unitholders	(23,409)	(28,108)
Payment of Preferred Stock dividends	(5,935)	(6,082)
Payment to affiliates for acquisition of customer book	—	(10)
Net cash used in financing activities	(65,017)	(76,651)
Increase (decrease) in Cash, cash equivalents and Restricted cash	17,712	(6,056)
Cash, cash equivalents and Restricted cash—beginning of period	57,668	49,638
Cash, cash equivalents and Restricted cash—end of period	$ 75,380	$ 43,582
Supplemental Disclosure of Cash Flow Information:		
Non-cash items:		
Property and equipment purchase accrual	$ 5	$ 89

Holdback for Verde Note—Indemnified Matters	$	—	$	4,900
Write-off of tax benefit related to tax receivable agreement liability—affiliates	$	—	$	4,157
Gain on settlement of tax receivable agreement liability—affiliates	$	—	$	(16,336)
Cash paid during the period for:				
Interest	$	3,198	$	5,245
Taxes	$	13,074	$	5,097

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

SPARK ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Formation and Organization

Organization

We are an independent retail energy services company that provides residential and commercial customers in competitive markets across the United States with an alternative choice for natural gas and electricity. Spark Energy, Inc. (the "Company") is a holding company whose sole material asset consists of units in Spark HoldCo, LLC (“Spark HoldCo”). The Company is the sole managing member of Spark HoldCo, is responsible for all operational, management and administrative decisions relating to Spark HoldCo’s business and consolidates the financial results of Spark HoldCo and its subsidiaries. Spark HoldCo is the direct and indirect owner of the subsidiaries through which we operate. We conduct our business through several brands across our service areas, including Electricity Maine, Electricity N.H., Major Energy, Provider Power Massachusetts, Respond Power, Spark Energy, and Verde Energy.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC") as it applies to interim financial statements. This information should be read along with our consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”). Our unaudited condensed consolidated financial statements are presented on a consolidated basis and include all wholly-owned and controlled subsidiaries. We account for investments over which we have significant influence but not a controlling financial interest using the equity method of accounting. All significant intercompany transactions and balances have been eliminated in the unaudited condensed consolidated financial statements.

In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments that are necessary to fairly present the financial position, the results of operations, the changes in equity and the cash flows of the Company for the respective periods. Such adjustments are of a normal recurring nature, unless otherwise disclosed.

Use of Estimates and Assumptions

The preparation of our condensed consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the period. Actual results could materially differ from those estimates.

Restricted Cash

As part of the acquisition of residential customer equivalents (“RCEs") from Starion Energy, Inc., Starion NY Inc. and Starion Energy PA Inc. (collectively "Starion") in 2018, we funded an escrow account, the balance of which is reflected as restricted cash in our consolidated balance sheet. As of September 30, 2020 and December 31, 2019, the balance in the escrow account related to the Starion acquisition was less than $0.1 million and $1.0 million, respectively. Approximately $1.0 million was released to the seller in July 2020 related to holdback amounts for acquired customers, subject to the terms of the asset purchase agreement. As of September 30, 2020, the balance remaining in escrow represents the amounts pending settlement between the Company and the seller.

Relationship with our Founder and Majority Shareholder

W. Keith Maxwell, III (our "Founder") is the owner of a majority of the voting power of our common stock through his ownership of NuDevco Retail, LLC ("NuDevco Retail") and Retailco, LLC ("Retailco"). Retailco is a wholly owned subsidiary of TxEx Energy Investments, LLC ("TxEx"), which is wholly owned by Mr. Maxwell. NuDevco Retail is a wholly owned subsidiary of NuDevco Retail Holdings LLC ("NuDevco Retail Holdings"), which is a wholly owned subsidiary of Electric HoldCo, LLC, which is also a wholly owned subsidiary of TxEx.

On November 2, 2020, the Board of Directors (the "Board") of the Company appointed W. Keith Maxwell III as Chief Executive Officer.

New Accounting Standards Recently Adopted

There have been no changes to our significant accounting policies as disclosed in our 2019 Form 10-K, except as follows:

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 requires entities to use a current expected credit loss ("CECL") model, which is a new impairment model based on expected losses rather than incurred losses on financial assets, including trade accounts receivables. The model requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We adopted ASU 2016-13 and the related amendments effective January 1, 2020, and the adoption resulted in $0.6 million adjustment to retained earnings on January 1, 2020.

Standards Being Evaluated/Standards Not Yet Adopted

Below are accounting standards that have been issued by the FASB but have not yet been adopted by the Company at September 30, 2020. The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes ("ASU 2019-12"). These amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. For public business entities, the amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We do not expect adoption of the new standard to have a material impact to our consolidated statement of operations.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. We do not expect adoption of the new standard to have a material impact to our consolidated statement of operations.

3. Revenues

Our revenues are derived primarily from the sale of natural gas and electricity to customers, including affiliates. Revenue is measured based upon the quantity of gas or power delivered at prices contained or referenced in the customer's contract, and excludes any sales incentives (e.g. rebates) and amounts collected on behalf of third parties (e.g. sales tax).

Our revenues also include asset optimization activities. Asset optimization activities consist primarily of purchases and sales of gas that meet the definition of trading activities per FASB ASC Topic 815, Derivatives and Hedging. They are therefore excluded from the scope of FASB ASC Topic 606, Revenue from Contracts with Customers.

Revenues for electricity and natural gas sales are recognized under the accrual method when our performance obligation to a customer is satisfied, which is the point in time when the product is delivered and control of the product passes to the customer. Electricity and natural gas products may be sold as fixed-price or variable-price products. The typical length of a contract to provide electricity and/or natural gas is twelve months. Customers are billed and typically pay at least monthly, based on usage. Electricity and natural gas sales that have been delivered but not billed by period end are estimated and recorded as accrued unbilled revenues based on estimates of customer usage since the date of the last meter read provided by the utility. Volume estimates are based on forecasted volumes and estimated residential and commercial customer usage. Unbilled revenues are calculated by multiplying these volume estimates by the applicable rate by customer class (residential or commercial). Estimated amounts are adjusted when actual usage is known and billed.

The following table discloses revenue by primary geographical market, customer type, and customer credit risk profile (in thousands). The table also includes a reconciliation of the disaggregated revenue to revenue by reportable segment (in thousands).

	Reportable Segments					
	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Retail Electricity	Retail Natural Gas	Total Reportable Segments	Retail Electricity	Retail Natural Gas	Total Reportable Segments
Primary markets (a)						
New England	$ 46,464	$ 1,361	$ 47,825	$ 76,995	$ 1,631	$ 78,626
Mid-Atlantic	46,878	2,243	49,121	69,763	2,940	72,703
Midwest	16,933	1,540	18,473	23,310	2,146	25,456
Southwest	22,683	3,086	25,769	26,942	3,614	30,556
	$ 132,958	$ 8,230	$ 141,188	$ 197,010	$ 10,331	$ 207,341
Customer type						
Commercial	$ 34,180	$ 2,705	$ 36,885	$ 69,081	$ 3,378	$ 72,459
Residential	103,092	5,082	108,174	134,763	6,696	141,459
Unbilled revenue (b)	(4,314)	443	(3,871)	(6,834)	257	(6,577)
	$ 132,958	$ 8,230	$ 141,188	$ 197,010	$ 10,331	$ 207,341
Customer credit risk						
POR	$ 87,439	$ 3,010	$ 90,449	$ 136,683	$ 4,037	$ 140,720
Non-POR	45,519	5,220	50,739	60,327	6,294	66,621
	$ 132,958	$ 8,230	$ 141,188	$ 197,010	$ 10,331	$ 207,341

	Reportable Segments					
	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Retail Electricity	Retail Natural Gas	Total Reportable Segments	Retail Electricity	Retail Natural Gas	Total Reportable Segments
Primary markets (a)						
New England	$ 133,218	$ 11,144	$ 144,362	$ 221,134	$ 13,311	$ 234,445
Mid-Atlantic	131,463	23,976	155,439	191,077	29,643	220,720
Midwest	46,428	19,338	65,766	62,890	27,371	90,261
Southwest	55,872	14,727	70,599	64,777	15,097	79,874
	$ 366,981	$ 69,185	$ 436,166	$ 539,878	$ 85,422	$ 625,300
Customer type						
Commercial	$ 103,603	$ 25,512	$ 129,115	$ 196,015	$ 32,079	$ 228,094
Residential	275,229	53,410	328,639	356,950	64,307	421,257
Unbilled revenue (b)	(11,851)	(9,737)	(21,588)	(13,087)	(10,964)	(24,051)
	$ 366,981	$ 69,185	$ 436,166	$ 539,878	$ 85,422	$ 625,300
Customer credit risk						
POR	$ 246,046	$ 34,423	$ 280,469	$ 375,890	$ 45,260	$ 421,150
Non-POR	120,935	34,762	155,697	163,988	40,162	204,150
	$ 366,981	$ 69,185	$ 436,166	$ 539,878	$ 85,422	$ 625,300

(a) The primary markets include the following states:

- New England - Connecticut, Maine, Massachusetts, New Hampshire;
- Mid-Atlantic - Delaware, Maryland (including the District of Colombia), New Jersey, New York and Pennsylvania;
- Midwest - Illinois, Indiana, Michigan and Ohio; and
- Southwest - Arizona, California, Colorado, Florida, Nevada, and Texas.

(b) Unbilled revenue is recorded in total until it is actualized, at which time it is categorized between commercial and residential customers.

We record gross receipts taxes on a gross basis in retail revenues and retail cost of revenues. During the three months ended September 30, 2020 and 2019, our retail revenues included gross receipts taxes of $0.3 million and $0.4 million, respectively, and our retail cost of revenues included gross receipts taxes of $1.6 million and $2.2 million, respectively. During the nine months ended September 30, 2020 and 2019, our retail revenues included gross receipts taxes of $1.0 million and $1.1 million, respectively, and our retail cost of revenues included gross receipts taxes of $4.7 million and $6.7 million, respectively.

Accounts receivables and Allowance for Credit Losses

As discussed in Note 2, “Basis of Presentation”, we adopted the new accounting standards for measuring credit losses effective January 1, 2020.

The Company conducts business in many utility service markets where the local regulated utility purchases our receivables, and then becomes responsible for billing the customer and collecting payment from the customer (“POR programs”). These POR programs result in substantially all of the Company’s credit risk being linked to the applicable utility, which generally has an investment-grade rating, and not to the end-use customer. The Company monitors the financial condition of each utility and currently believes its receivables are collectible.

In markets that do not offer POR programs or when the Company chooses to directly bill its customers, certain receivables are billed and collected by the Company. The Company bears the credit risk on these accounts and records an appropriate allowance for doubtful accounts to reflect any losses due to non-payment by customers. The Company's customers are individually insignificant and geographically dispersed in these markets. The Company writes off customer balances when it believes that amounts are no longer collectible and when it has exhausted all means to collect these receivables.

For trade accounts receivables, the Company accrues an allowance for doubtful accounts by business segment by pooling customer accounts receivables based on similar risk characteristics, such as customer type, geography, aging analysis, payment terms, and related macro-economic factors. Expected credit loss exposure is evaluated for each of our accounts receivables pools. Expected credits losses are established using a model that considers historical collections experience, current information, and reasonable and supportable forecasts. The Company writes off accounts receivable balances against the allowance for doubtful accounts when the accounts receivable is deemed to be uncollectible.

A rollforward of our allowance for credit losses for the nine months ended September 30, 2020 are presented in the table below (in thousands):

Balance 12/31/19	$ (4,797)
Impact of adoption of ASC 326	(633)
Current period bad debt provision	(3,151)
Write-offs	4,006
Recovery of previous write offs	(581)
Balance 9/30/20	$ (5,156)

4. Equity

Non-controlling Interest

We hold an economic interest and are the sole managing member in Spark HoldCo, with affiliates of our Founder, majority shareholder and Chief Executive Officer holding the remaining economic interests in Spark HoldCo. As a result, we consolidate the financial position and results of operations of Spark HoldCo, and reflect the economic interests owned by these affiliates as a non-controlling interest. The Company and affiliates owned the following economic interests in Spark HoldCo at September 30, 2020 and December 31, 2019, respectively.

	The Company	Affiliated Owners
September 30, 2020	41.53 %	58.47 %
December 31, 2019	41.04 %	58.96 %

The following table summarizes the portion of net income (loss) and income tax expense (benefit) attributable to non-controlling interest (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income allocated to non-controlling interest	$ 14,909	$ 25,003	$ 38,717	$ 7,108
Income tax expense allocated to non-controlling interest	1,916	2,861	4,517	1,372
Net income attributable to non-controlling interest	$ 12,993	$ 22,142	$ 34,200	$ 5,736

Class A Common Stock and Class B Common Stock

Holders of the Company's Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law or by our certificate of incorporation.

Dividends declared for the Company's Class A common stock are reported as a reduction of retained earnings, or a reduction of additional paid in capital to the extent retained earnings are exhausted. During the nine months ended September 30, 2020, we paid $7.9 million in dividends to the holders of the Company's Class A common stock. This dividend represented a quarterly rate of $0.18125 per share on each share of Class A common stock.

In order to pay our stated dividends to holders of our Class A common stock, our subsidiary, Spark HoldCo is required to make corresponding distributions to holders of its units, including those holders that own our Class B common stock (our non-controlling interest holder). As a result, during the nine months ended September 30, 2020, Spark HoldCo made corresponding distributions of $11.3 million to our non-controlling interest holders.

Share Repurchase Program

On August 18, 2020, our Board of Directors authorized a share repurchase program of up to $20.0 million of Class A common stock through August 18, 2021. We are funding the program through available cash balances, our Senior Credit Facility and operating cash flows.

The shares of Class A common stock may be repurchased from time to time in the open market at prevailing market prices or in privately negotiated transactions based on ongoing assessments of capital needs, the market price of the stock, and other factors, including general market conditions. The repurchase program does not obligate us to acquire any particular amount of Class A common stock, may be modified or suspended at any time, and could be terminated prior to completion.

During the three and nine months ended September 30, 2020, we repurchased 45,148 shares of our Class A common stock at a weighted average price of $8.75 per share, for a total cost of $0.4 million.

Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income attributable to stockholders (the numerator) by the weighted-average number of Class A common shares outstanding for the period (the denominator). Class B common shares are not included in the calculation of basic earnings per share because they are not participating securities and have no economic interests. Diluted earnings per share is similarly calculated except that the denominator is increased by potentially dilutive securities.

The following table presents the computation of basic and diluted income (loss) per share for the three and nine months ended September 30, 2020 and 2019 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income attributable to Spark Energy, Inc. stockholders	$ 9,613	$ 15,534	$ 25,251	$ 9,201
Less: Dividends on Series A preferred stock	1,951	2,026	5,490	6,080
Net income attributable to stockholders of Class A common stock	$ 7,662	$ 13,508	$ 19,761	$ 3,121
Basic weighted average Class A common shares outstanding	14,653	14,380	14,531	14,254
Basic income per share attributable to stockholders	**$ 0.52**	**$ 0.94**	**$ 1.36**	**$ 0.22**
Net income attributable to stockholders of Class A common stock	$ 7,662	$ 13,508	$ 19,761	$ 3,121
Effect of conversion of Class B common stock to shares of Class A common stock	—	—	—	—
Diluted net income attributable to stockholders of Class A common stock	$ 7,662	$ 13,508	$ 19,761	$ 3,121
Basic weighted average Class A common shares outstanding	14,653	14,380	14,531	14,254
Effect of dilutive Class B common stock	—	—	—	—
Effect of dilutive restricted stock units	18	134	124	175
Diluted weighted average shares outstanding	14,671	14,514	14,655	14,429
Diluted income per share attributable to stockholders	**$ 0.52**	**$ 0.93**	**$ 1.35**	**$ 0.22**

The computation of diluted earnings per share for the three and nine months ended September 30, 2020 excludes 20.8 million shares of Class B common stock because the effect of their conversion was antidilutive. The Company's outstanding shares of Series A Preferred Stock were not included in the calculation of diluted earnings per share because they contain only contingent redemption provisions that have not occurred.

Variable Interest Entity

Spark HoldCo is a variable interest entity due to its lack of rights to participate in significant financial and operating decisions and its inability to dissolve or otherwise remove its management. Spark HoldCo owns all of the outstanding membership interests in each of our operating subsidiaries. We are the sole managing member of Spark HoldCo, manage Spark HoldCo's operating subsidiaries through this managing membership interest, and are considered the primary beneficiary of Spark HoldCo. The assets of Spark HoldCo cannot be used to settle our obligations except through distributions to us, and the liabilities of Spark HoldCo cannot be settled by us except through contributions to Spark HoldCo. The following table includes the carrying amounts and classification of the assets and liabilities of Spark HoldCo that are included in our condensed consolidated balance sheet as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 75,248	$ 56,598
Accounts receivable	63,810	113,635
Other current assets	53,881	64,476
Total current assets	192,939	234,709
Non-current assets:		
Goodwill	120,343	120,343
Other assets	19,390	37,826
Total non-current assets	139,733	158,169
Total Assets	$ 332,672	$ 392,878
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 58,004	$ 86,097
Other current liabilities	43,015	65,863
Total current liabilities	101,019	151,960
Long-term liabilities:		
Long-term portion of Senior Credit Facility	100,000	123,000
Other long-term liabilities	511	712
Total long-term liabilities	100,511	123,712
Total Liabilities	$ 201,530	$ 275,672

5. Preferred Stock

In May 2019, we commenced a share repurchase program (the "Repurchase Program") of our Series A Preferred Stock. The Repurchase Program allowed us to purchase our Series A Preferred Stock through May 20, 2020, and there was no dollar limit on the amount of Series A Preferred Stock that may be repurchased, nor did the Repurchase Program obligate the Company to make any repurchases.

In November 2019, we amended and extended our Repurchase Program of our Series A Preferred Stock. The Repurchase Program allows us to purchase Series A Preferred Stock through December 31, 2020, at prevailing prices, in open market or negotiated transactions, subject to market conditions, maximum share prices and other considerations. The Repurchase Program does not obligate us to make any repurchases and may be suspended at any time.

In May 2020, we initiated a tender offer to purchase up to 1,000,000 shares of our Series A Preferred Stock. In June 2020, we accepted for purchase 36,827 shares of the Series A Preferred Stock at a purchase price of $22.00 per share, for an aggregate purchase price of approximately $0.8 million.

During the three months ended September 30, 2020, there were no repurchases of Series A Preferred Stock. During the nine months ended September 30, 2020, we repurchased 109,775 shares of Series A Preferred Stock at a weighted-average price of $20.79 per share (including shares purchased through the tender offer described above), for a total cost of approximately $2.3 million.

Holders of the Series A Preferred Stock have no voting rights, except in specific circumstances of delisting or in the case the dividends are in arrears as specified in the Series A Preferred Stock Certificate of Designations. The Series A Preferred Stock accrue dividends at an annual percentage rate of 8.75%, and the liquidation preference provisions of the Series A Preferred Stock are considered contingent redemption provisions because there are rights granted to the holders of the Series A Preferred Stock that are not solely within our control upon a change in control of the Company. Accordingly, the Series A Preferred Stock is presented between liabilities and the equity sections in the accompanying condensed consolidated balance sheet.

During the three and nine months ended September 30, 2020, we paid $2.0 million and $6.0 million in dividends to holders of the Series A Preferred Stock. As of September 30, 2020, we had accrued $1.9 million related to dividends to holders of the Series A Preferred Stock. This dividend was paid on October 15, 2020.

A summary of our preferred equity balance for the nine months ended September 30, 2020 is as follows:

	(in thousands)
Balance at December 31, 2019	**$ 90,015**
Accumulated dividends on Series A Preferred Stock	**(60)**
Repurchase of Series A Preferred Stock	(2,667)
Balance at September 30, 2020	**$ 87,288**

6. Derivative Instruments

We are exposed to the impact of market fluctuations in the price of electricity and natural gas, basis differences in the price of natural gas, storage charges, renewable energy credits ("RECs"), and capacity charges from independent system operators. We use derivative instruments in an effort to manage our cash flow exposure to these risks. These instruments are not designated as hedges for accounting purposes, and, accordingly, changes in the market value of these derivative instruments are recorded in the cost of revenues. As part of our strategy to optimize pricing in our natural gas related activities, we also manage a portfolio of commodity derivative instruments held for trading purposes. Our commodity trading activities are subject to limits within our Risk Management Policy. For these derivative instruments, changes in the fair value are recognized currently in earnings in net asset optimization revenues.

Derivative assets and liabilities are presented net in our condensed consolidated balance sheets when the derivative instruments are executed with the same counterparty under a master netting arrangement. Our derivative contracts include transactions that are executed both on an exchange and centrally cleared, as well as over-the-counter, bilateral contracts that are transacted directly with third parties. To the extent we have paid or received collateral related to the derivative assets or liabilities, such amounts would be presented net against the related derivative asset or liability’s fair value. As of September 30, 2020 we had received $0.2 million and paid less than $0.1 million in collateral. As of December 31, 2019 we had paid $1.7 million in collateral. The specific types of derivative instruments we may execute to manage the commodity price risk include the following:

- Forward contracts, which commit us to purchase or sell energy commodities in the future;
- Futures contracts, which are exchange-traded standardized commitments to purchase or sell a commodity or financial instrument;
- Swap agreements, which require payments to or from counterparties based upon the differential between two prices for a predetermined notional quantity; and
- Option contracts, which convey to the option holder the right but not the obligation to purchase or sell a commodity.

The Company has entered into other energy-related contracts that do not meet the definition of a derivative instrument or for which we made a normal purchase, normal sale election and are therefore not accounted for at fair value including the following:

- Forward electricity and natural gas purchase contracts for retail customer load;
- Renewable energy credits; and
- Natural gas transportation contracts and storage agreements.

Volumes Underlying Derivative Transactions

The following table summarizes the net notional volumes of our open derivative financial instruments accounted for at fair value by commodity. Positive amounts represent net buys while bracketed amounts are net sell transactions (in thousands):

Non-trading

Commodity	Notional	September 30, 2020	December 31, 2019
Natural Gas	MMBtu	2,484	6,130
Natural Gas Basis	MMBtu	—	42
Electricity	MWh	2,391	6,015

Trading

Commodity	Notional	September 30, 2020	December 31, 2019
Natural Gas	MMBtu	134	204

Gains (Losses) on Derivative Instruments

Gains (losses) on derivative instruments, net and current period settlements on derivative instruments were as follows for the periods indicated (in thousands):

	Three Months Ended September 30,	
	2020	2019
Gain on non-trading derivatives, net	$ 2,550	$ 12,528
Loss on trading derivatives, net	(99)	(221)
Gain on derivatives, net	**2,451**	**12,307**
Current period settlements on non-trading derivatives	$ 6,489	$ 12,764
Current period settlements on trading derivatives	(64)	(43)
Total current period settlements on derivatives	**$ 6,425**	**$ 12,721**

	Nine Months Ended September 30,	
	2020	2019
Loss on non-trading derivatives, net	$ (14,019)	$ (42,741)
Gain on trading derivatives, net	4	51
Loss on derivatives, net	**(14,015)**	**(42,690)**
Current period settlements on non-trading derivatives (1)	$ 33,153	$ 33,677
Current period settlements on trading derivatives	(156)	(162)
Total current period settlements on derivatives	**$ 32,997**	**$ 33,515**

(1) Excludes settlements of $(0.3) million and $(0.9) million, respectively, for the nine months ended September 30, 2020 and 2019 related to power call options.

Gains (losses) on trading derivative instruments are recorded in net asset optimization revenues and gains (losses) on non-trading derivative instruments are recorded in retail cost of revenues on the condensed consolidated statements of operations.

Fair Value of Derivative Instruments

The following tables summarize the fair value and offsetting amounts of our derivative instruments by counterparty and collateral received or paid (in thousands):

	September 30, 2020				
Description	**Gross Assets**	**Gross Amounts Offset**	**Net Assets**	**Cash Collateral Offset**	**Net Amount Presented**
Non-trading commodity derivatives	$ 3,747	$ (2,859)	$ 888	$ (182)	$ 706
Trading commodity derivatives	87	(32)	55	—	55
Total Current Derivative Assets	3,834	(2,891)	943	(182)	761
Non-trading commodity derivatives	255	(180)	75	—	75
Trading commodity derivatives	—	—	—	—	—
Total Non-current Derivative Assets	255	(180)	75	—	75
Total Derivative Assets	**$ 4,089**	**$ (3,071)**	**$ 1,018**	**$ (182)**	**$ 836**

	September 30, 2020				
Description	**Gross Liabilities**	**Gross Amounts Offset**	**Net Liabilities**	**Cash Collateral Offset**	**Net Amount Presented**
Non-trading commodity derivatives	$ (8,598)	$ 5,204	$ (3,394)	$ 21	$ (3,373)
Trading commodity derivatives	(32)	—	(32)	—	(32)
Total Current Derivative Liabilities	(8,630)	5,204	(3,426)	21	(3,405)
Non-trading commodity derivatives	(501)	42	(459)	—	(459)
Trading commodity derivatives	—	—	—	—	—
Total Non-current Derivative Liabilities	(501)	42	(459)	—	(459)
Total Derivative Liabilities	**$ (9,131)**	**$ 5,246**	**$ (3,885)**	**$ 21**	**$ (3,864)**

	December 31, 2019				
Description	**Gross Assets**	**Gross Amounts Offset**	**Net Assets**	**Cash Collateral Offset**	**Net Amount Presented**
Non-trading commodity derivatives	$ 570	$ (275)	$ 295	$ —	$ 295
Trading commodity derivatives	170	(1)	169	—	169
Total Current Derivative Assets	740	(276)	464	—	464
Non-trading commodity derivatives	333	(227)	106	—	106
Trading commodity derivatives	—	—	—	—	—
Total Non-current Derivative Assets	333	(227)	106	—	106
Total Derivative Assets	**$ 1,073**	**$ (503)**	**$ 570**	**$ —**	**$ 570**

	December 31, 2019				
Description	**Gross Liabilities**	**Gross Amounts Offset**	**Net Liabilities**	**Cash Collateral Offset**	**Net Amount Presented**
Non-trading commodity derivatives	$ (34,434)	$ 12,859	$ (21,575)	$ 1,632	$ (19,943)
Trading commodity derivatives	(194)	194	—	—	—
Total Current Derivative Liabilities	(34,628)	13,053	(21,575)	1,632	(19,943)
Non-trading commodity derivatives	(1,951)	1,422	(529)	34	(495)
Trading commodity derivatives	—	—	—	—	—
Total Non-current Derivative Liabilities	(1,951)	1,422	(529)	34	(495)
Total Derivative Liabilities	**$ (36,579)**	**$ 14,475**	**$ (22,104)**	**$ 1,666**	**$ (20,438)**

7. Property and Equipment

Property and equipment consist of the following (in thousands):

	Estimated useful lives (years)	September 30, 2020	December 31, 2019
Information technology	2 – 5	$ 23,229	$ 22,005
Furniture and fixtures	2 – 5	1,802	1,802
Total		25,031	23,807
Accumulated depreciation		(22,164)	(20,540)
Property and equipment—net		**$ 2,867**	**$ 3,267**

Information technology assets include software and consultant time used in the application, development and implementation of various systems including customer billing and resource management systems. As of each of September 30, 2020 and December 31, 2019, information technology includes $0.5 million and $0.6 million, respectively, of costs associated with assets not yet placed into service.

Depreciation expense recorded in the condensed consolidated statements of operations was $0.4 million and $0.6 million, respectively, for the three months ended September 30, 2020 and 2019 and $1.6 million and $1.8 million for the nine months ended September 30, 2020 and 2019, respectively.

8. Intangible Assets

Goodwill, customer relationships and trademarks consist of the following amounts (in thousands):

	September 30, 2020		December 31, 2019	
Goodwill	**$**	**120,343**	**$**	**120,343**
Customer relationships—Acquired				
Cost	$	64,083	$	64,083
Accumulated amortization		(47,300)		(40,231)
Customer relationships—Acquired	**$**	**16,783**	**$**	**23,852**
Customer relationships—Other				
Cost	$	17,056	$	17,056
Accumulated amortization		(13,046)		(9,534)
Customer relationships—Other, net	**$**	**4,010**	**$**	**7,522**
Trademarks				
Cost	$	7,570	$	8,502
Accumulated amortization		(2,694)		(2,794)
Trademarks, net	**$**	**4,876**	**$**	**5,708**

Changes in goodwill, customer relationships (including non-compete agreements) and trademarks consisted of the following (in thousands):

	Goodwill		Customer Relationships—Acquired		Customer Relationships— Other		Trademarks	
Balance at December 31, 2019	$	120,343	$	23,852	$	7,522	$	5,708
Additions		—		—		—		—
Amortization		—		(7,069)		(3,512)		(832)
Balance at September 30, 2020	$	120,343	$	16,783	$	4,010	$	4,876

Estimated future amortization expense for customer relationships and trademarks at September 30, 2020 is as follows (in thousands):

Year ending December 31,		
2020 (remaining three months)	$	3,304
2021		13,142
2022		6,194
2023		605
2024		404
> 5 years		2,020
Total	**$**	**25,669**

9. Debt

Debt consists of the following amounts as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020		December 31, 2019	
Long-term debt:				
Senior Credit Facility (1) (2)	$	100,000	$	123,000
Total long-term debt		100,000		123,000
Total debt	$	100,000	$	123,000

(1) As of September 30, 2020 and December 31, 2019, the weighted average interest rate on the Senior Credit Facility was 3.75% and 4.71%, respectively.
(2) As of September 30, 2020 and December 31, 2019, we had $31.8 million and $37.4 million in letters of credit issued, respectively.

Capitalized financing costs associated with our Senior Credit Facility were $1.8 million and $1.3 million as of September 30, 2020 and December 31, 2019, respectively. Of these amounts, $1.0 million and $0.9 million are recorded in other current assets, and $0.8 million and $0.4 million are recorded in other non-current assets in the condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively.

Interest expense consists of the following components for the periods indicated (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Senior Credit Facility	$	477	$	1,120	$	1,904	$	3,741
Verde promissory note		—		—		—		230
Letters of credit fees and commitment fees		244		395		1,073		1,253
Amortization of deferred financing costs		476		497		966		1,002
Other		290		162		290		166
Interest Expense	$	1,487	$	2,174	$	4,233	$	6,392

Senior Credit Facility

The Company, as guarantor, and Spark HoldCo (the "Borrower" and, together with each subsidiary of Spark HoldCo ("Co-Borrowers")) maintain a senior secured borrowing base credit facility (as amended from time to time, "Senior Credit Facility") that allows us to borrow on a revolving basis and has a maximum borrowing capacity of $187.5 million as of September 30, 2020.

Subject to applicable sub-limits and terms of the Senior Credit Facility, borrowings are available for the issuance of letters of credit ("Letters of Credit"), working capital and general purpose revolving credit loans ("Working Capital Loans"), and share buyback loans ("Share Buyback Loans") for the purpose of funding the repurchase of Class A common stock and Series A Preferred Stock.

Pursuant to the Senior Credit Facility, the Company is entitled to Share Buyback Loans of up to $80.0 million, which permit the Company to repurchase up to an aggregate of 8,000,000 shares of our Class A common stock or $80.0 million of Series A Preferred Stock under Share Buyback Loans (subject to the terms and conditions thereof).

The Senior Credit Facility will mature on July 31, 2022, and all amounts outstanding thereunder will be payable on the maturity date. Borrowings under the Senior Credit Facility may be used to pay fees and expenses in connection with the Senior Credit Facility, finance ongoing working capital requirements and general corporate purpose requirements of the Co-Borrowers, to provide partial funding for acquisitions, as allowed under terms of the Senior Credit Facility, and to make open market purchases of our Class A common stock and Series A Preferred Stock.

Pursuant to the Senior Credit Facility, the interest rate for Working Capital Loans and Letters of Credit under the Senior Credit Facility is generally determined by reference to the Eurodollar rate plus an applicable margin of up to 3.25% per annum (based on the prevailing utilization) or an alternate base rate plus an applicable margin of up to 2.25% per annum (based on the prevailing utilization). The alternate base rate is equal to the highest of (i) the prime rate (as published in the Wall Street Journal), (ii) the federal funds rate plus 0.50% per annum, or (iii) the reference Eurodollar rate plus 1.00%.

Borrowings under the Senior Credit Facility for Share Buyback Loans, are generally determined by reference to the Eurodollar rate plus an applicable margin of 4.50% per annum or the alternate base rate plus an applicable margin of 3.50% per annum.

The Co-Borrowers pay a commitment fee of 0.50% quarterly in arrears on the unused portion of the Senior Credit Facility. In addition, the Co-Borrowers are subject to additional fees including an upfront fee, an annual agency fee, and letter of credit fees based on a percentage of the face amount of letters of credit payable to any syndicate member that issues a letter of credit.

The Senior Credit Facility contains covenants that, among other things, require the maintenance of specified ratios or conditions including:

- *Minimum Fixed Charge Coverage Ratio*. We must maintain a minimum fixed charge coverage ratio of not less than 1.25 to 1.00. The Minimum Fixed Charge Coverage Ratio is defined as the ratio of (a) Adjusted EBITDA to (b) the sum of consolidated (with respect to the Company and the Co-Borrowers) interest expense, letter of credit fees, commitment fees, acquisition earn-out payments (excluding earnout payments funded with proceeds from newly issued preferred or common equity), distributions, scheduled amortization payments, and payments made on or after the closing of the Fourth Amendment to the Senior Credit Facility (other than such payments made from escrow accounts which were funded in connection with a permitted acquisition) related to the settlement of civil and regulatory matters if not included in the calculation of Adjusted EBITDA.

- *Maximum Total Leverage Ratio*. We must maintain a ratio of (x) the sum of total indebtedness (excluding eligible subordinated debt and letter of credit obligations), plus (y) gross amounts reserved for civil and regulatory liabilities identified in SEC filings, to Adjusted EBITDA of no more than 2.50 to 1.00.

- *Maximum Senior Secured Leverage Ratio*. We must maintain a Senior Secured Leverage Ratio of no more than 1.85 to 1.00. The Senior Secured Leverage Ratio is defined as the ratio of (a) all indebtedness of the loan parties on a consolidated basis that is secured by a lien on any property of any loan party (including the effective amount of all loans then outstanding under the Senior Credit Facility) to (b) Adjusted EBITDA.

The Senior Credit Facility contains various negative covenants that limit our ability to, among other things, incur certain additional indebtedness, grant certain liens, engage in certain asset dispositions, merge or consolidate, make certain payments, distributions, investments, acquisitions or loans, materially modify certain agreements, or enter into transactions with affiliates. The Senior Credit Facility also contains affirmative covenants that are customary for credit facilities of this type. As of September 30, 2020, we were in compliance with our various covenants under the Senior Credit Facility.

The Senior Credit Facility is secured by pledges of the equity of the portion of Spark HoldCo owned by us, the equity of Spark HoldCo's subsidiaries, the Co-Borrowers' present and future subsidiaries, and substantially all of the Co-Borrowers' and their subsidiaries' present and future property and assets, including accounts receivable, inventory and liquid investments, and control agreements relating to bank accounts.

The Senior Credit Facility contains certain customary representations and warranties and events of default. Events of default include, among other things, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults and cross-acceleration to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments in excess of $5.0 million, certain events with respect to material contracts, and actual or asserted failure of any guaranty or security document supporting the Senior Credit Facility to be in full force and effect. A default will also occur if at any time W. Keith Maxwell III ceases to, directly or indirectly, own at least 13,600,000 Class A and Class B shares on a combined basis (to be adjusted for any stock split, subdivisions or other stock reclassification or recapitalization), and a controlling percentage of the voting equity interest of the Company, and certain other changes in control. If such an event of default occurs, the lenders under the Senior Credit Facility would be entitled to take various actions, including the acceleration of amounts due under the facility and all actions permitted to be taken by a secured creditor.

Subordinated Debt Facility

The Company maintains an Amended and Restated Subordinated Promissory Note in the principal amount of up to $25.0 million (the "Subordinated Debt Facility"), by and among the Company, Spark HoldCo and Retailco. The Subordinated Debt Facility matures on December 31, 2021.

The Subordinated Debt Facility allows us to draw advances in increments of no less than $1.0 million per advance up to the maximum principal amount of the Subordinated Debt Facility. Advances thereunder accrue interest at 5% per annum from the date of the advance. We have the right to capitalize interest payments under the Subordinated Debt Facility. The Subordinated Debt Facility is subordinated in certain respects to our Senior Credit Facility pursuant to a subordination agreement. We may pay interest and prepay principal on the Subordinated Debt Facility so long as we are in compliance with the covenants under our Senior Credit Facility, are not in default under the Senior Credit Facility and have minimum availability of $5.0 million under the borrowing base under the Senior Credit Facility. Payment of principal and interest under the Subordinated Debt Facility is accelerated upon the occurrence of certain change of control or sale transactions.

As of September 30, 2020, and December 31, 2019, there were no outstanding borrowings under the Subordinated Debt Facility.

10. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes the credit standing of counterparties involved and the impact of credit enhancements.

We apply fair value measurements to our commodity derivative instruments based on the following fair value hierarchy, which prioritizes the inputs to the valuation techniques used to measure fair value into three broad levels:

- Level 1—Quoted prices in active markets for identical assets and liabilities. Instruments categorized in Level 1 primarily consist of financial instruments such as exchange-traded derivative instruments.
- Level 2—Inputs other than quoted prices recorded in Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 primarily include non-exchange traded derivatives such as over-the-counter commodity forwards and swaps and options.
- Level 3—Unobservable inputs for the asset or liability, including situations where there is little, if any, observable market activity for the asset or liability.

As the fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3), the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. These levels can change over time. In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present assets and liabilities measured and recorded at fair value in our condensed consolidated balance sheets on a recurring basis by and their level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
September 30, 2020				
Non-trading commodity derivative assets	$ 167	$ 614	$ —	$ 781
Trading commodity derivative assets	36	19	—	55
Total commodity derivative assets	**$ 203**	**$ 633**	**$ —**	**$ 836**
Non-trading commodity derivative liabilities	$ —	$ (3,832)	$ —	$ (3,832)
Trading commodity derivative liabilities	—	(32)	—	(32)
Total commodity derivative liabilities	**$ —**	**$ (3,864)**	**$ —**	**$ (3,864)**

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Non-trading commodity derivative assets	$ —	$ 401	$ —	$ 401
Trading commodity derivative assets	—	169	—	169
Total commodity derivative assets	**$ —**	**$ 570**	**$ —**	**$ 570**
Non-trading commodity derivative liabilities	$ (1,666)	$ (18,772)	$ —	$ (20,438)
Trading commodity derivative liabilities	—	—	—	—
Total commodity derivative liabilities	**$ (1,666)**	**$ (18,772)**	**$ —**	**$ (20,438)**

We had no transfers of assets or liabilities between any of the above levels during the nine months ended September 30, 2020 and the year ended December 31, 2019.

Our derivative contracts include exchange-traded contracts valued utilizing readily available quoted market prices and non-exchange-traded contracts valued using market price quotations available through brokers or over-the-counter and on-line exchanges. In addition, in determining the fair value of our derivative contracts, we apply a credit risk valuation adjustment to reflect credit risk, which is calculated based on our or the counterparty's historical credit risks. As of September 30, 2020 and December 31, 2019, the credit risk valuation adjustment was a reduction of derivative liabilities, net of $0.1 million and $0.2 million, respectively.

11. Income Taxes

Income Taxes

We and our subsidiaries, CenStar and Verde Energy USA, Inc. ("Verde Corp"), are each subject to U.S. federal income tax as corporations. CenStar and Verde Corp file consolidated tax returns in jurisdictions that allow combined reporting. Spark HoldCo and its subsidiaries, with the exception of CenStar and Verde Corp, are treated as flow-through entities for U.S. federal income tax purposes and, as such, are generally not subject to U.S. federal income tax at the entity level. Rather, the tax liability with respect to their taxable income is passed through to their members or partners. Accordingly, we are subject to U.S. federal income taxation on our allocable share of Spark HoldCo's net U.S. taxable income.

In our financial statements, we report federal and state income taxes for our share of the partnership income attributable to our ownership in Spark HoldCo and for the income taxes attributable to CenStar and Verde Corp. Net income attributable to non-controlling interest includes the provision for income taxes related to CenStar and Verde Corp.

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the tax bases of the assets and liabilities. We apply existing tax law and the tax rate that we expect to apply to taxable income in the years in which those differences are expected to be recovered or settled in calculating the deferred tax assets and liabilities. Effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period of the tax rate enactment. A valuation allowance is recorded when it is not more likely than not that some or all of the benefit from the deferred tax asset will be realized.

We periodically assess whether it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets. In making this determination, we consider all available positive and negative evidence and make certain assumptions. We consider, among other things, our deferred tax liabilities, the overall business environment, our historical earnings and losses, current industry trends, and our outlook for future years. We believe it is more likely than not that our deferred tax assets will be utilized, and accordingly have not recorded a valuation allowance on these assets.

As of September 30, 2020, we had a net deferred tax asset of $26.5 million, of which approximately $15.6 million related to the original step up in tax basis resulting from the initial purchase of Spark HoldCo units from NuDevco Retail and NuDevco Retail Holdings (predecessor to Retailco) in connection with our initial public offering.

The effective U.S. federal and state income tax rate for the three months ended September 30, 2020 and 2019 was 18.5% and 14.8%, respectively. The effective U.S. federal and state income tax rate for the nine months ended September 30, 2020 and 2019 was 17.6% and 16.8%, respectively. The effective tax rate for the three and nine months ended September 30, 2020 differed from the U.S. federal statutory tax rate of 21% primarily due to state taxes and the benefit provided from Spark HoldCo operating as a limited liability company, which is treated as a partnership for federal and state income tax purposes and is not subject to federal and state income taxes. Accordingly, the portion of earnings attributable to non-controlling interest is subject to tax when reported as a component of the non-controlling interest holders' taxable income.

12. Commitments and Contingencies

From time to time, we may be involved in legal, tax, regulatory and other proceedings in the ordinary course of business. Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Legal Proceedings

Below is a summary of our currently pending material legal proceedings. We are subject to lawsuits and claims arising in the ordinary course of our business. The following legal proceedings are in various stages and are subject to substantial uncertainties concerning the outcome of material factual and legal issues. Accordingly, unless otherwise specifically noted, we cannot currently predict the manner and timing of the resolutions of these legal proceedings or estimate a range of possible losses or a minimum loss that could result from an adverse verdict in a potential lawsuit. While the lawsuits and claims are asserted for amounts that may be material should an unfavorable outcome occur, management does not currently expect that any currently pending matters will have a material adverse effect on our financial position or results of operations.

Consumer Lawsuits

Similar to other energy service companies ("ESCOs") operating in the industry, from time-to-time, the Company is subject to class action lawsuits in various jurisdictions where the Company sells natural gas and electricity.

Variable Rate Cases

In the cases referred to as Variable Rate Cases, such actions involve consumers alleging they paid higher rates than they would have if they stayed with their default utility. The facts of each case are similar; however, because they have been brought in several different jurisdictions, there is varying applicable case law, and each case is in various stages of progression, the Company agreed to mediate in two aggregated mediations to avoid duplicative defense costs in numerous jurisdictions. The Company continues to deny the allegations asserted by Plaintiffs and intends to vigorously defend these matters.

The August 2020 mediation covered three matters: (1) *Janet Rolland et al v. Spark Energy, LLC* (D.N.J. Apr. 2017); (2) *Burger v. Spark Energy Gas, LLC* (N.D. Ill. Dec. 2019); and (3) *Local 901 v. Spark Energy, LLC* (Sup .Ct. Allen County, Indiana Aug. 2019). Given the ongoing mediation, discovery and current stage of this matters, we cannot predict the outcome of these cases at this time.

The October 2020 mediation covered five matters: (1) *Marshall v. Verde Energy USA, Inc*. (D.N.J. Jan. 2018); (2) *Mercado v. Verde Energy USA, Inc.* (N.D. Ill. Mar. 2018); (3) *Davis v. Verde Energy USA*, *Inc., et al*. (D. Mass. Apr. 2019); (4) *LaQua v. Verde Energy USA New York, LLC* (E.D.N.Y. Jan. 2020); and (5) *Abbate v. Verde Energy USA Ohio, LLC* (S.D. Ohio Jun. 2020). Given the ongoing mediation, discovery and current stage of these matters, we cannot predict the outcome of these cases at this time.

Advertising Case

Katherine Veilleux, et. al. v. Electricity Maine LLC, Provider Power, LLC, Spark HoldCo, LLC, Kevin Dean, and Emile Clavet was a purported class action lawsuit filed on November 18, 2016 in the United States District Court of Maine, alleging that Electricity Maine, LLC ("Electricity Maine"), an entity acquired by Spark Holdco in mid-2016, enrolled customers and conducted advertising, and promotions allegedly not in compliance with law. Plaintiffs sought damages for themselves and the purported class, injunctive relief, restitution, and attorneys' fees. The parties participated in mediation in July 2019 and reached a settlement. The court granted final approval of that settlement in mid-October 2020. The claims period closed September 10, 2020 and customer claims will be processed by year end, closing this matter.

Corporate Matter Lawsuits

Saul Horowitz, as Sellers' Representative for the former owners of the Major Energy Companies v. National Gas & Electric, LLC ("NG&E") and Spark Energy, Inc., is a lawsuit filed on October 17, 2017 in the United States District Court for the Southern District of New York asserting claims of fraudulent inducement against NG&E, breach of contract against NG&E and Spark, and tortious interference with contract against Spark related to a membership interest purchase agreement, subsequent dropdown, and associated earnout agreements with the Major Energy Companies' former owners. The relief sought includes unspecified compensatory and punitive damages, prejudgment and post-judgment interest, and attorneys' fees. This case went to trial during the first two weeks of March 2020 and all material has been submitted to the Judge for his decision. Given the trial was in Manhattan, New York, which was previously under a shelter-in-place order and is currently re-opening in phases, we are not able to predict when we receive a final decision on this matter. Spark and NG&E deny the allegations asserted by Plaintiffs and have vigorously defended this matter; however, we cannot predict the outcome or consequences of this case at this time.

In addition to the matters disclosed above, the Company may from time to time be subject to legal proceedings that arise in the ordinary course of business. Although there can be no assurance in this regard, the Company does not expect any of those legal proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial condition.

Regulatory Matters

Many state regulators have increased scrutiny on retail energy providers, across all industry providers. We are subject to regular regulatory inquiries and preliminary investigations in the ordinary course of our business. Below is a summary of our currently pending material state regulatory matters. The following state regulatory matters are in various stages and are subject to substantial uncertainties concerning the outcome of material factual and legal issues. Accordingly, we cannot currently predict the manner and timing of the resolution of these state regulatory matters or estimate a range of possible losses or a minimum loss that could result from an adverse action. Management does not currently expect that any currently pending state regulatory matters will have a material adverse effect on our financial position or results of operations.

Connecticut. The Company has been working with the Connecticut Public Utilities Regulatory Authority ("PURA") regarding compliance with requirements implemented in 2016 that customer bills include any changes to existing rates effective for the next billing cycle. The Company and other ESCOs in Connecticut have agreed to submit to a proceeding offering amnesty to ESCOs that self-report violations and offer to voluntarily remit refunds to customers. The Company has remitted for its brands operating in Connecticut its report of potential customers who would be eligible for refunds under the amnesty program and submitted its confidential settlement proposals. PURA is completing its review and audit and issuing final decisions regarding such amnesty payments. PURA has approved the Major and Verde brand settlements and refunds have been issued for Major and Verde customers. The Company is working with staff on the final approval for the Spark and Perigee brands, which we believe will be finalized by year end. The HIKO brand should be approved and a settlement completed in the first quarter of 2021.

Illinois. Spark Energy, LLC received a verbal inquiry from the Illinois Commerce Commission ("ICC") and the Illinois Attorney General ("IAG") on January 1, 2020 seeking to understand an increase in complaints from Illinois consumers. The Company met with the ICC and the IAG in February 2020 and plan to discuss a compliance plan to ensure its sales are in compliance with Illinois regulations. The parties also discussed possible restitution payments to any customers impacted by sales not in compliance with Illinois regulations. The Company is currently working with both regulators on this matter.

Maine. In early 2018, Staff of the Maine Public Utilities Commission (“Maine PUC”) issued letters to Electricity Maine seeking information about customer complaints principally associated with historical door-to-door (“D2D”) sales practices. In late July 2018, the Maine PUC issued an Order to Show Cause and Electricity Maine responded in mid-August 2018. The Commission scheduled a procedural conference in early 2019 that resulted in no intervenors other than participation as a party by the Maine Office of Public Advocate. At the conference, the parties agreed on a procedural schedule, including a one-day evidentiary hearing. Following post-hearing discovery, Initial and Reply Briefs were filed on August 30, 2019 and September 10, 2019, respectively. The Maine PUC hearing examiner released its report in April 2020 alleging failures of compliance related to enrollment and marketing practices by Electricity Maine. The Company has been cooperatively working with the Maine Office of Public Advocate and the staff of the Maine PUC. The Company has proposed a resolution of this matter which will be presented to the Maine PUC for approval by the end of 2020.

New York.

New York Attorney General. Prior to the purchase of Major Energy by the Company, in 2015, Major Energy Services, LLC and Major Energy Electric Services were contacted by the Attorney General, Bureau of Consumer Frauds & Protection for State of New York relating to their marketing practices. Major Energy has exchanged information in response to various requests from the Attorney General and recently agreed to respond to additional questions via remote proceedings in October of 2020. The parties are in settlement negotiations at this time. While investigations of this nature may be resolved in a manner that allows the retail energy supplier to continue operating in New York with stipulations, there can be no assurances that the New York Attorney General will not take more severe action.

Ohio. Verde Energy USA Ohio, LLC (“Verde Ohio”) was the subject of a formal investigation by the Public Utilities Commission of Ohio (“PUCO”) initiated on April 16, 2019. The investigation asserted that Verde Ohio may have violated Ohio’s retail energy supplier regulations. Verde Ohio voluntary suspended door-to-door marketing in Ohio in furtherance of settlement negotiations with the PUCO Staff. On September 6, 2019, Verde Ohio and PUCO Staff executed and filed with PUCO a Joint Stipulation and Recommendation for PUCO’s review and approval, which sets forth agreed settlement terms, which included approximately $1.9 million in refunds to customers and a penalty of $0.7 million. The settlement was approved by PUCO on February 26, 2020, and the Joint Stipulation and Recommendation resolves all of the issues raised in the investigation. The Company has provided all refunds to customers and is waiting on final approval of its license recertifications, which is expected to be decided by year end.

In addition, in September of 2019, the Ohio Attorney General (“OAG”) alleged that Verde Ohio had violated its Consumer Sales Practice Act and Do Not Call regulations. Verde Ohio is cooperating and responding to the OAG’s document requests; however, at this time, the Company cannot predict the outcome of this matter.

Pennsylvania. Verde Energy USA, Inc. (“Verde”) is the subject of a formal investigation by the Pennsylvania Public Utility Commission, Bureau of Investigation and Enforcement (“PPUC”) initiated on January 30, 2020. The investigation asserts that Verde may have violated Pennsylvania retail energy supplier regulations. The Company met with the PPUC in February 2020 to discuss the matter and to work with the PPUC cooperatively. Verde reached a settlement, which includes a civil penalty of $1.0 million and a $0.1 million contribution to the PPL hardship fund. On June 30, 2020, Verde and PPUC Bureau of Investigation and Enforcement filed a Joint Petition for Approval of Settlement and Statements in Support of that Joint Petition with the Commission. Verde is currently awaiting final approval of this settlement.

In addition to the matters disclosed above, in the ordinary course of business, the Company may from time to time be subject to regulators initiating informal reviews or issuing subpoenas for information as means to evaluate the Company and its subsidiaries’ compliance with applicable laws, rule, regulations and practices. Although there can be no assurance in this regard, the Company does not expect any of those regulatory reviews to have a material adverse effect on the Company’s results of operations, cash flows or financial condition.

Indirect Tax Audits

We are undergoing various types of indirect tax audits spanning from years 2014 to 2020 for which additional liabilities may arise. At the time of filing these condensed consolidated financial statements, these indirect tax audits are at an early stage and subject to substantial uncertainties concerning the outcome of audit findings and corresponding responses.

As of September 30, 2020 and December 31, 2019, we had accrued $19.7 million and $29.2 million, respectively, related to litigation and regulatory matters and $2.0 million and $1.8 million, respectively, related to indirect tax audits. The outcome of each of these may result in additional expense.

13. Transactions with Affiliates

Transactions with Affiliates

We enter into transactions with and pay certain costs on behalf of affiliates that are commonly controlled in order to reduce risk, reduce administrative expense, create economies of scale, create strategic alliances and supply goods and services to these related parties. We also sell and purchase natural gas and electricity with affiliates and pay an affiliate to perform telemarketing activities. We present receivables and payables with the same affiliate on a net basis in the condensed consolidated balance sheets as all affiliate activity is with parties under common control. Affiliated transactions include certain services to the affiliated companies associated with employee benefits provided through our benefit plans, insurance plans, leased office space, administrative salaries, due diligence work, recurring management consulting, and accounting, tax, legal, or technology services. Amounts billed are based on the services provided, departmental usage, or headcount, which are considered reasonable by management. As such, the accompanying condensed consolidated financial statements include costs that have been incurred by us and then directly billed or allocated to affiliates, as well as costs that have been incurred by our affiliates and then directly billed or allocated to us, and are recorded net in general and administrative expense on the condensed consolidated statements of operations with a corresponding accounts receivable—affiliates or accounts payable—affiliates, respectively, recorded in the condensed consolidated balance sheets. Transactions with affiliates for sales or purchases of natural gas and electricity are recorded in retail revenues, retail cost of revenues, and net asset optimization revenues in the condensed consolidated statements of operations with a corresponding accounts receivable—affiliate or accounts payable—affiliate are recorded in the condensed consolidated balance sheets.

Cost Allocations

Where costs incurred on behalf of the affiliate or us cannot be determined by specific identification for direct billing, the costs are allocated to the affiliated entities or us based on estimates of percentage of departmental usage, wages or headcount. The total net amount direct billed and allocated (to)/from affiliates was $(0.5) million and $(0.5) million for the three months ended September 30, 2020 and 2019, respectively. The total net amount direct billed and allocated (to)/from affiliates was $(0.5) million and $(0.1) million for the nine months ended September 30, 2020 and 2019, respectively.

General and administrative costs of $0.1 million and $0.2 million were recorded for the three and nine months ended September 30, 2020 related to telemarketing activities performed by an affiliate.

Accounts Receivable and Payable—Affiliates

As of September 30, 2020 and December 31, 2019, we had current accounts receivable—affiliates of $4.6 million and $2.0 million, respectively, and current accounts payable—affiliates of $0.4 million and $1.0 million, respectively.

Revenues and Cost of Revenues—Affiliates

Revenues recorded in net asset optimization revenues in the condensed consolidated statements of operations for the three months ended September 30, 2020 and 2019 related to affiliated sales were $0.1 million and $0.3 million, respectively. Revenues recorded in net asset optimization revenues in the condensed consolidated statements of operations for the nine months ended September 30, 2020 and 2019 related to affiliated sales were $0.8 million and $2.1 million, respectively.

Cost of revenues recorded in net asset optimization revenues in the condensed consolidated statements of operations for the three months ended September 30, 2020 and 2019 related to affiliated purchases were less than $0.1 million and less than $0.1 million, respectively. Cost of revenues recorded in net asset optimization revenues in the condensed consolidated statements of operations for the nine months ended September 30, 2020 and 2019 related to affiliated purchases were $0.2 million and $0.1 million, respectively. These amounts are presented as net on the condensed consolidated statements of operations.

Distributions to and Contributions from Affiliates

During three months ended September 30, 2020 and 2019, Spark HoldCo made distributions to affiliates of our Founder of $3.8 million for the payments of quarterly distribution on their respective Spark HoldCo units. During the three months ended September 30, 2020 and 2019, Spark HoldCo also made distributions to these affiliates for gross-up distributions of $5.9 million and $16.8 million, respectively, in connection with distributions made between Spark HoldCo and Spark Energy, Inc. for payment of income taxes incurred by us.

During each of the nine months ended September 30, 2020 and 2019, Spark HoldCo made distributions to affiliates of our Founder of $11.3 million and $11.3 million, for payments of quarterly distributions on their respective Spark HoldCo units. During the nine months ended September 30, 2020 and 2019, Spark HoldCo also made distributions to these affiliates for gross-up distributions of $12.1 million and $16.8 million, respectively, in connection with distributions made between Spark HoldCo and Spark Energy, Inc. for payment of income taxes incurred by us.

Subordinated Debt Facility

In June 2019, we and Spark HoldCo entered into a Subordinated Debt Facility with an affiliate owned by our Founder, which allows the Company to borrow up to $25.0 million. The Subordinated Debt Facility allows us to draw advances in increments of no less than $1.0 million per advance up to the maximum principal amount of the Subordinated Debt Facility. Advances thereunder accrue interest at 5% per annum from the date of the advance. As of September 30, 2020 and December 31, 2019, there was zero in outstanding borrowings under the Subordinated Debt Facility. See Note 9 "Debt" for a further description of terms and conditions of the Subordinated Debt Facility.

Tax Receivable Agreement

Prior to July 11, 2019, we were party to a Tax Receivable Agreement ("TRA") with affiliates. Effective July 11, 2019, the Company entered into a TRA Termination and Release Agreement (the “Release Agreement”), which provided for a full and complete termination of any further payment, reimbursement or performance obligation of the Company, Retailco and NuDevco Retail under the TRA, whether past, accrued or yet to arise. Pursuant to the Release Agreement, the Company made a cash payment of approximately $11.2 million on July 15, 2019 to Retailco and NuDevco Retail. In connection with the termination of the TRA, Spark HoldCo made a distribution of approximately $16.3 million on July 15, 2019 to Retailco and NuDevco Retail under the Spark HoldCo Third Amended and Restated Limited Liability Company Agreement, as amended.

14. Segment Reporting

Our determination of reportable business segments considers the strategic operating units under which we make financial decisions, allocate resources and assess performance of our business. Our reportable business segments are retail electricity and retail natural gas. The retail electricity segment consists of electricity sales and transmission to residential and commercial customers. The retail natural gas segment consists of natural gas sales to, and natural gas transportation and distribution for, residential and commercial customers. Corporate and other consists of expenses and assets of the retail electricity and natural gas segments that are managed at a consolidated level such as general and administrative expenses. Asset optimization activities are also included in Corporate and other.

For the three months ended September 30, 2020 and 2019, we recorded asset optimization revenues of $6.2 million and $14.6 million and asset optimization cost of revenues of $6.8 million and $14.9 million, respectively, and for the nine months ended September 30, 2020 and 2019, we recorded asset optimization revenues of $16.5 million and $50.7 million and asset optimization cost of revenues of $16.8 million and $48.5 million, respectively, which are presented on a net basis in asset optimization revenues.

We use retail gross margin to assess the performance of our operating segments. Retail gross margin is defined as operating (loss) income plus (i) depreciation and amortization expenses and (ii) general and administrative expenses, less (i) net asset optimization (expenses) revenues, (ii) net (losses) gains on non-trading derivative instruments, and (iii) net current period cash settlements on non-trading derivative instruments. We deduct net (losses) gains on non-trading derivative instruments, excluding current period cash settlements, from the retail gross margin calculation in order to remove the non-cash impact of net gains and losses on these derivative instruments. Retail gross margin should not be considered an alternative to, or more meaningful than, operating income, as determined in accordance with GAAP.

Below is a reconciliation of retail gross margin to income before income tax expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Reconciliation of Retail Gross Margin to Income before taxes				
Income before income tax expense	$ 27,747	$ 44,243	$ 72,190	$ 17,959
Interest and other income	(80)	(322)	(293)	(1,005)
Interest expense	1,487	2,174	4,233	6,392
Operating income	29,154	46,095	76,130	23,346
Depreciation and amortization	7,278	9,496	24,084	31,963
General and administrative	19,080	27,629	66,087	94,352
Less:				
Net asset optimization (expense) revenues	(558)	(254)	(319)	2,242
Net, gain (loss) on non-trading derivative instruments	2,550	12,528	(14,019)	(42,741)
Net, Cash settlements on non-trading derivative instruments	6,489	12,764	33,153	33,677
Retail Gross Margin	**$ 47,031**	**$ 58,182**	**$ 147,486**	**$ 156,483**

Financial data for business segments are as follows (in thousands):

Three Months Ended September 30, 2020

	Retail Electricity	Retail Natural Gas	Corporate and Other	Eliminations	Consolidated
Total Revenues	$ 132,958	$ 8,230	$ (558)	$ —	$ 140,630
Retail cost of revenues	82,061	3,057	—	—	85,118
Less:					
Net asset optimization expense	—	—	(558)	—	(558)
Net, gain on non-trading derivative instruments	1,923	627	—	—	2,550
Current period settlements on non-trading derivatives	6,212	277	—	—	6,489
Retail Gross Margin	**$ 42,762**	**$ 4,269**	**$ —**	**$ —**	**$ 47,031**
Total Assets at September 30, 2020	**$ 2,821,953**	**$ 910,665**	**$ 322,542**	**$ (3,694,032)**	**$ 361,128**
Goodwill at September 30, 2020	**$ 117,813**	**$ 2,530**	**$ —**	**$ —**	**$ 120,343**

Three Months Ended September 30, 2019

	Retail Electricity	Retail Natural Gas	Corporate and Other	Eliminations	Consolidated
Total revenues	$ 197,010	$ 10,331	$ (254)	$ —	$ 207,087
Retail cost of revenues	119,100	4,767	—	—	123,867
Less:					
Net asset optimization expense	—	—	(254)	—	(254)
Net gain (loss) on non-trading derivative instruments	12,652	(124)	—	—	12,528
Current period settlements on non-trading derivatives	12,115	649	—	—	12,764
Retail Gross Margin	**$ 53,143**	**$ 5,039**	**$ —**	**$ —**	**$ 58,182**
Total Assets at December 31, 2019	**$ 2,524,884**	**$ 820,601**	**$ 341,411**	**$ (3,263,928)**	**$ 422,968**
Goodwill at December 31, 2019	**$ 117,813**	**$ 2,530**	**$ —**	**$ —**	**$ 120,343**

Nine Months Ended September 30, 2020					
	Retail Electricity	Retail Natural Gas	Corporate and Other	Eliminations	Consolidated
Total revenues	$ 366,981	$ 69,185	$ (319)	$ —	$ 435,847
Retail cost of revenues	241,712	27,834	—	—	269,546
Less:					
Net asset optimization expense	—	—	(319)	—	(319)
Net (loss) gain on non-trading derivatives	(14,416)	397	—	—	(14,019)
Current period settlements on non-trading derivatives	30,544	2,609	—	—	33,153
Retail Gross Margin	**$ 109,141**	**$ 38,345**	**$ —**	**$ —**	**$ 147,486**
Total Assets at September 30, 2020	**$ 2,821,953**	**$ 910,665**	**$ 322,542**	**$ (3,694,032)**	**$ 361,128**
Goodwill at September 30, 2020	**$ 117,813**	**$ 2,530**	**$ —**	**$ —**	**$ 120,343**

Nine Months Ended September 30, 2019					
	Retail Electricity	Retail Natural Gas	Corporate and Other	Eliminations	Consolidated
Total revenues	$ 539,878	$ 85,422	$ 2,242	$ —	$ 627,542
Retail cost of revenues	433,175	44,706	—	—	477,881
Less:					
Net asset optimization revenues	—	—	2,242	—	2,242
Net, (loss) gain on non-trading derivatives	(42,984)	243	—	—	(42,741)
Current period settlements on non-trading derivatives	32,957	720	—	—	33,677
Retail Gross Margin	**$ 116,730**	**$ 39,753**	**$ —**	**$ —**	**$ 156,483**
Total Assets at December 31, 2019	**$ 2,524,884**	**$ 820,601**	**$ 341,411**	**$ (3,263,928)**	**$ 422,968**
Goodwill at December 31, 2019	**$ 117,813**	**$ 2,530**	**$ —**	**$ —**	**$ 120,343**

15. Subsequent Events

Declaration of Dividends

On October 19, 2020, we declared a quarterly dividend of $0.18125 per share to holders of record of our Class A common stock on December 1, 2020, which will be paid on December 15, 2020.

On October 19, 2020, we also declared a quarterly cash dividend in the amount of $0.546875 per share to holders of record of the Series A Preferred Stock on January 1, 2021. The dividend will be paid on January 15, 2021.

Senior Credit Facility Expansion

On October 30, 2020, a new lender was added to the Senior Credit Facility, bringing total commitments under the Senior Credit Facility to $202.5 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Report and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations included in our 2019 Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 5, 2020. Results of operations and cash flows for the three and nine months ended September 30, 2020 are not necessarily indicative of results to be attained for any other period. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors."

Overview

We are an independent retail energy services company founded in 1999 that provides residential and commercial customers in competitive markets across the United States with an alternative choice for natural gas and electricity. We purchase our natural gas and electricity supply from a variety of wholesale providers and bill our customers monthly for the delivery of natural gas and electricity based on their consumption at either a fixed or variable price. Natural gas and electricity are then distributed to our customers by local regulated utility companies through their existing infrastructure. As of September 30, 2020, we operated in 100 utility service territories across 19 states and the District of Columbia.

Our business consists of two operating segments:

- *Retail Electricity Segment*. In this segment, we purchase electricity supply through physical and financial transactions with market counterparties and ISOs and supply electricity to residential and commercial consumers pursuant to fixed-price and variable-price contracts. For the three months ended September 30, 2020 and 2019, approximately 94% and 95%, respectively, of our retail revenues were derived from the sale of electricity.

- *Retail Natural Gas Segment*. In this segment, we purchase natural gas supply through physical and financial transactions with market counterparties and supply natural gas to residential and commercial consumers pursuant to fixed-price and variable-price contracts. For the three months ended September 30, 2020 and 2019, approximately 6% and 5%, respectively, of our retail revenues were derived from the sale of natural gas.

Recent Developments

Senior Credit Facility Expansion

On October 30, 2020, a new lender was added to the Senior Credit Facility, bringing total commitments under the Senior Credit Facility to $202.5 million.

Appointment of Chief Executive Officer

On November 2, 2020, our Board of Directors appointed W. Keith Maxwell III as Chief Executive Officer.

Class A Common Stock Repurchase Program

On August 18, 2020, our Board of Directors authorized a share repurchase program of up to $20.0 million of Class A common stock through August 18, 2021. During the three and nine months ended September 30, 2020, we repurchased 45,148 shares of our Class A common stock at a weighted average price of $8.75 per share, for a total cost of $0.4 million. Please see "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II of this Form 10-Q.

COVID-19

The outbreak of the novel Coronavirus ("COVID-19") is a rapidly developing situation around the globe that has adversely impacted economic activity and conditions worldwide. In response to the COVID-19 pandemic, we deployed a remote working strategy in March 2020 that enables certain of our employees to work from home, provided timely communication to team members, implemented protocols for team members' safety, and initiated strategies for monitoring and responding to local COVID-19 impacts. Our preparedness efforts, coupled with quick and decisive plan implementation, resulted in minimal impacts to our workforce. Our employees continue to work remotely, but we plan to return to an on-site work strategy once health and safety conditions permit.

As described further below under "Drivers of our Business", during the three months ended September 30, 2020, compared to the three months ended September 30, 2019, we had fewer organic customer acquisitions, which resulted in reduced customer acquisition costs. In addition, for the three months ended September 30, 2020 compared to three months ended September 30, 2019, we experienced lower customer attrition, slight increases in residential demand, and slight decreases in C&I demand. The financial impact of the decrease in C&I demand was offset by higher demand from residential customers, which have higher margins. Overall, we believe we have not experienced a material adverse impact to our business, financial condition or results of operations during the quarter ended September 30, 2020 as a result of the COVID-19 pandemic. We are continuing to monitor developments involving our workforce, customers and suppliers and the impact on our operations, business, financial condition, liquidity and results of operations for future periods. Please see “Item 1A—Risk Factors” in this Report.

Residential Customer Equivalents

We measure our number of customers using residential customer equivalents ("RCEs"). The following table shows our RCEs by segment during the three and nine months ended September 30, 2020:

RCEs:

(In thousands)	**June 30, 2020**	**Additions**	**Attrition**	**September 30, 2020**	**% Increase (Decrease)**
Retail Electricity	420	11	(38)	393	(6)%
Retail Natural Gas	114	1	(9)	106	(7)%
Total Retail	**534**	**12**	**(47)**	**499**	**(7)%**

RCEs:

(In thousands)	**December 31, 2019**	**Additions**	**Attrition**	**September 30, 2020**	**% Increase (Decrease)**
Retail Electricity	533	33	(173)	393	(26)%
Retail Natural Gas	139	8	(41)	106	(24)%
Total Retail	**672**	**41**	**(214)**	**499**	**(26)%**

The following table details our count of RCEs by geographical location as of September 30, 2020:

RCEs by Geographic Location:

(In thousands)	**Electricity**	**% of Total**	**Natural Gas**	**% of Total**	**Total**	**% of Total**
New England	160	41%	22	21%	182	36%
Mid-Atlantic	135	34%	36	34%	171	34%
Midwest	39	10%	30	28%	69	14%
Southwest	59	15%	18	17%	77	16%
Total	**393**	**100%**	**106**	**100%**	**499**	**100%**

The geographical locations noted above include the following states:

- New England - Connecticut, Maine, Massachusetts and New Hampshire;
- Mid-Atlantic - Delaware, Maryland (including the District of Columbia), New Jersey, New York and Pennsylvania;
- Midwest - Illinois, Indiana, Michigan and Ohio; and
- Southwest - Arizona, California, Colorado, Florida, Nevada and Texas.

Across our market areas, we have operated under a number of different retail brands. We currently operate under seven retail brands. During 2019, we began consolidating our brands and billing systems in an effort to simplify our business operations where practical. Our goal is to continue our efforts to reduce the number of separate brands throughout 2020.

Drivers of our Business

The success of our business and our profitability are impacted by a number of drivers, the most significant of which are discussed below.

Customer Growth

Customer growth is a key driver of our operations. Our ability to acquire customers organically or by acquisition is important to our success as we experience ongoing customer attrition. Our customer growth strategy includes growing organically through traditional sales channels complemented by customer portfolio and business acquisitions. Our customer book may decrease if we are unable to replace customer attrition in the ordinary course of business through organic growth and/or acquisitions.

Our organic sales strategies are designed to offer competitive pricing, price certainty, and/or green product offerings to residential and commercial customers. We manage growth on a market-by-market basis by developing price curves in each of the markets we serve and creating competitive product offerings that provide value to our targeted customer segments. To support these sales initiatives, we develop marketing campaigns using a combination of sales channels. Our marketing team continuously evaluates the effectiveness of each customer acquisition channel and makes adjustments in order to achieve desired targets.

Due to the COVID-19 pandemic, certain Public Utility Commissions, regulatory agencies, and other governmental authorities in most of our markets continue to maintain orders prohibiting energy services companies from door-to-door marketing and in some cases telemarketing during the pandemic, which has restricted some of the manners we have historically used to market for organic sales. In March 2020, as a result of these actions, the Company continues to hold off on active door-to-door marketing activities in all markets regardless of states' regulations. In response, the Company has focused on development of products and channels, partners for web sales, as well as accelerating its telemarketing sales quality programs to react to available opportunities in the second half of 2020.

During the three months ended September 30, 2020, we added approximately 12,000 RCEs primarily through organic web sales and telemarketing activities. This amount was significantly lower than historical periods due to the marketing limitations discussed above, as well as an active decision to slow sales activities as we focus our efforts to improve our organic sales channels, including vendor selection and sales quality. As most markets continue to enforce a ban on door-to-door activities, and we are focused on rebuilding our sales infrastructure, we do not anticipate piloting door-to-door campaigns until late fourth quarter of 2020, but we will continue to market in the manners that are permitted. Although we expect to acquire less customers organically in future periods than we have historically while marketing restrictions are in place, we are unable to predict the ultimate effect on our organic sales at this time. Please see “Item 1A—Risk Factors” in this Report.

We acquire companies and portfolios of customers through both external and affiliated channels. Our ability to realize returns from acquisitions that are acceptable to us is dependent on our ability to successfully identify, negotiate, finance and integrate acquisitions.

Customer Acquisition Costs

Managing customer acquisition costs is a key component of our profitability. Customer acquisition costs are those costs related to obtaining customers organically and do not include the cost of acquiring customers through acquisitions, which are recorded as customer relationships.

We strive to maintain a disciplined approach to recovery of our customer acquisition costs within a 12-month period. We capitalize and amortize our customer acquisition costs over a two-year period, which is based on our estimate of the expected average length of a customer relationship. We factor in the recovery of customer acquisition costs in determining which markets we enter and the pricing of our products in those markets. Accordingly, our results are significantly influenced by our customer acquisition costs. Changes in customer acquisition costs from period to period reflect our focus on growing organically versus growth through acquisitions. We are currently focused on growing through organic sales channels; however, we continue to evaluate opportunities to acquire customers through acquisitions and pursue such acquisitions when it makes sense economically or strategically for the Company.

As described above, certain Public Utility Commissions, regulatory agencies, and other governmental authorities in all of our markets have issued orders that impact the way we have historically acquired customers, such as door to door marketing. Our reduced marketing resulted in significantly reduced customer acquisition costs during the three months ended September 30, 2020 compared to historical amounts. As long as these orders are in effect and marketing is reduced, we expect to incur reduced customer acquisition costs in future periods. However, we may incur increased costs through other manners of marketing, such as online marketing. We also expect our customer acquisition costs with respect to door to door marketing to return to historic levels once door to door marketing restriction orders are lifted. We are unable to predict the ultimate impact on our customer acquisition costs at this time. Please see “Item 1A—Risk Factors” in this Report.”

Customer Attrition

Customer attrition occurs primarily as a result of: (i) customer initiated switches; (ii) residential moves; (iii) disconnection resulting from customer payment defaults; and (iv) pro-active non-renewal of contracts. Average monthly customer attrition for the three months ended September 30, 2020 and 2019 was 3.0% and 4.0%, respectively.

The current COVID-19 pandemic has caused regulatory agencies and other governmental authorities to take, and potentially continue to take, emergency or other actions in light of the pandemic that may impact our overall customer attrition, including prohibiting the termination of service for non-payment during the current COVID-19 pandemic. In addition, some state commissions continue discussions on allowing utilities to spread costs over time while allowing for full financial recovery plus cost of cash at a later date. This could create an advantage for incumbent utilities as energy service companies have to absorb or pass along COVID-19 related costs to customers, resulting in further disparity between market pricing and the utility price for customers. Furthermore, like us, due to restrictions on door-to-door activities, other energy service companies are limited in their ability to market, which may reduce customer initiated switches. We believe these orders and circumstances caused our customer attrition to be lower for the third quarter of 2020 compared to the third quarter of 2019. Consistent with our previously communicated strategy to shrink our C&I customer book, our customer attrition for C&I customers was slightly higher than the prior year because of our pro-active non-renewal of some of our large commercial contracts; however, this impact was more than offset by the decline in residential customer attrition during the current year. Although customer attrition was slightly lower during the third quarter of 2020, we are unable to predict the ultimate impact of these actions on overall customer attrition over the next six months, at this time. Please see “Item 1A—Risk Factors” in this Report.

Customer Credit Risk

Our bad debt expense for the three months ended September 30, 2020 and 2019 was 0.9% and 2.7%, respectively, and our bad debt expense for the nine months ended September 30, 2020 and 2019 was 2.0% and 3.4% respectively, for non-purchase of receivable market ("non-POR") revenues. An increased focus on collection efforts, timely billing and credit monitoring for new enrollments in non-POR markets beginning in late 2019 have led to an improvement in the bad debt expense over the past several months, including the three months ended September 30, 2020. We have also been able to collect on debts that were previously written off, which has further reduced our bad debt expense during the three and nine months ended September 30, 2020.

The current COVID-19 pandemic has caused regulatory agencies and other governmental authorities to take, and potentially continue to take, emergency or other actions in light of the pandemic that may impact our customer credit risk, including prohibiting the termination of service for non-payment during the current COVID-19 pandemic, requiring deferred payment plans for certain customers unable to pay their bill, and utilities increasing POR fees they charge us in an effort to recoup their bad debts losses. Although the Company noted no significant impact as a result of the COVID-19 pandemic as related to credit risk for the three months ended September 30, 2020, because of the time lag between the delivery of electricity and natural gas, the issuance of an invoice, and the customer's payment due date, there may be a substantial lag in time before we are able to determine specific trends in bad debt expense as a result of COVID-19. We are also monitoring other events that may have an impact on our credit risk, such as the expiration of unemployment benefits in September 2020 in many of our service territories. Please see "Item 1A—Risk Factors" in this Report.

Weather Conditions

Weather conditions directly influence the demand for natural gas and electricity and affect the prices of energy commodities. Our hedging strategy is based on forecasted customer energy usage, which can vary substantially as a result of weather patterns deviating from historical norms. We are particularly sensitive to this variability in our residential customer segment where energy usage is highly sensitive to weather conditions that impact heating and cooling demand.

Our risk management policies direct that we hedge substantially all of our forecasted demand, which is typically hedged to long-term normal weather patterns. We also attempt to add additional protection through hedging from time to time to protect us from potential volatility in markets where we have historically experienced higher exposure to extreme weather conditions. Because we attempt to match commodity purchases to anticipated demand, unanticipated changes in weather patterns can have a significant impact on our operating results and cash flows from period to period.

During the third quarter of 2020, we experienced milder than anticipated weather across many of our markets as well as slight decreases in C&I demand as a result of the COVID-19 pandemic, both of which negatively impacted overall customer usage. This was partially offset by slight increases in residential demand as a result of the COVID-19 pandemic. The financial impact of overall demand reductions was offset by increased margins as a result of our strategy to shift away from C&I customers to a primarily residential customer base, resulting in an overall positive impact on our electricity and natural gas unit margins in the third quarter of 2020.

As a result of the COVID-19 pandemic, we may experience changes in customer demand in future periods that we cannot fully anticipate. While not weather related, these changes in demand may lead us to experience financial gains and/or losses in much the same fashion as a weather event as the current circumstances make it more difficult to accurately predict demand. While we continue to conduct analytics on our customer base to anticipate these changes in demand, we cannot predict how the COVID-19 pandemic will ultimately impact our hedging strategy related to our load forecasts. Please see "Item 1A—Risk Factors" in this Report.

Asset Optimization

Our asset optimization opportunities primarily arise during the winter heating season when demand for natural gas is typically at its highest. Given the opportunistic nature of these activities and because we account for these activities using the mark to market method of accounting, we experience variability in our earnings from our asset optimization activities from year to year.

Net asset optimization resulted in a loss of $0.6 million and $0.3 million for the three months ended September 30, 2020 and 2019, respectively.

Non-GAAP Performance Measures

We use the non-GAAP performance measures of Adjusted EBITDA and Retail Gross Margin to evaluate and measure our operating results as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2020	2019	2020	2019
Adjusted EBITDA	$ 27,749	$ 28,084	$ 81,897	$ 66,742
Retail Gross Margin	$ 47,031	$ 58,182	$ 147,486	$ 156,483

Adjusted EBITDA. We define "Adjusted EBITDA" as EBITDA less (i) customer acquisition costs incurred in the current period, plus or minus (ii) net (loss) gain on derivative instruments, and (iii) net current period cash settlements on derivative instruments, plus (iv) non-cash compensation expense, and (v) other non-cash and non-recurring operating items. EBITDA is defined as net income (loss) before the provision for income taxes, interest expense and depreciation and amortization.

We deduct all current period customer acquisition costs (representing spending for organic customer acquisitions) in the Adjusted EBITDA calculation because such costs reflect a cash outlay in the period in which they are incurred, even though we capitalize and amortize such costs over two years. We do not deduct the cost of customer acquisitions through acquisitions of businesses or portfolios of customers in calculating Adjusted EBITDA.

We deduct our net (losses) gains on derivative instruments, excluding current period cash settlements, from the Adjusted EBITDA calculation in order to remove the non-cash impact of net gains and losses on these instruments. We also deduct non-cash compensation expense that results from the issuance of restricted stock units under our long-term incentive plan due to the non-cash nature of the expense. Finally, we also adjust from time to time other non-cash or unusual and/or infrequent charges due to either their non-cash nature or their infrequency.

We believe that the presentation of Adjusted EBITDA provides information useful to investors in assessing our liquidity and financial condition and results of operations and that Adjusted EBITDA is also useful to investors as a financial indicator of our ability to incur and service debt, pay dividends and fund capital expenditures. Adjusted EBITDA is a supplemental financial measure that management and external users of our condensed consolidated financial statements, such as industry analysts, investors, commercial banks and rating agencies, use to assess the following:

- our operating performance as compared to other publicly traded companies in the retail energy industry, without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate earnings sufficient to support our proposed cash dividends;
- our ability to fund capital expenditures (including customer acquisition costs) and incur and service debt; and
- our compliance with financial debt covenants. (Refer to Note 9 "Debt" to Part I, Item 1 of this Report for discussion of the material terms of our Senior Credit Facility, including the covenant requirements for our Minimum Fixed Charge Coverage Ratio, Maximum Total Leverage Ratio, and Maximum Senior Secured Leverage Ratio.)

The GAAP measures most directly comparable to Adjusted EBITDA are net (loss) income and net cash provided by (used in) operating activities. The following table presents a reconciliation of Adjusted EBITDA to these GAAP measures for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2020	2019	2020	2019
Reconciliation of Adjusted EBITDA to Net income:				
Net income	$ 22,606	$ 37,676	$ 59,451	$ 14,937
Depreciation and amortization	7,278	9,496	24,084	31,963
Interest expense	1,487	2,174	4,233	6,392
Income tax expense	5,141	6,567	12,739	3,022
EBITDA	36,512	55,913	100,507	56,314
Less:				
Net, gain (loss) on derivative instruments	2,451	12,307	(14,015)	(42,690)
Net cash settlements on derivative instruments	6,425	12,721	32,997	33,515
Customer acquisition costs	207	4,423	1,762	13,608
Plus:				
Non-cash compensation expense	320	1,622	2,134	4,054
Non-recurring legal and regulatory settlements	—	—	—	10,807
Adjusted EBITDA	$ 27,749	$ 28,084	$ 81,897	$ 66,742

The following table presents a reconciliation of Adjusted EBITDA to net cash provided by operating activities for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2020	2019	2020	2019
Reconciliation of Adjusted EBITDA to net cash provided by operating activities:				
Net cash provided by operating activities	$ 12,165	$ 26,056	$ 83,948	$ 77,085
Amortization of deferred financing costs	(476)	(497)	(966)	(1,002)
Bad debt expense	(880)	(3,170)	(4,613)	(9,185)
Interest expense	1,487	2,174	4,233	6,392
Income tax expense	5,141	6,567	12,739	3,022
Changes in operating working capital				
Accounts receivable, prepaids, current assets	1,709	1,034	(48,301)	(50,358)
Inventory	823	1,560	(1,158)	(298)
Accounts payable and accrued liabilities	9,374	(963)	39,213	30,209
Other	(1,594)	(4,677)	(3,198)	10,877
Adjusted EBITDA	$ 27,749	$ 28,084	$ 81,897	$ 66,742
Cash Flow Data:				
Cash flows provided by operating activities	$ 12,165	$ 26,056	$ 83,948	$ 77,085
Cash flows used in investing activities	$ (640)	$ (117)	$ (1,219)	$ (6,490)
Cash flows used in financing activities	$ (15,769)	$ (10,937)	$ (65,017)	$ (76,651)

Retail Gross Margin. We define retail gross margin as operating income (loss) plus (i) depreciation and amortization expenses and (ii) general and administrative expenses, less (iii) net asset optimization (expenses) revenues, (iv) net gains (losses) on non-trading derivative instruments, and (v) net current period cash settlements on non-trading derivative instruments. Retail gross margin is included as a supplemental disclosure because it is a primary performance measure used by our management to determine the performance of our retail natural gas and electricity segments. As an indicator of our retail energy business's operating performance, retail gross margin should not be considered an alternative to, or more meaningful than, operating income (loss), its most directly comparable financial measure calculated and presented in accordance with GAAP.

We believe retail gross margin provides information useful to investors as an indicator of our retail energy business's operating performance.

The GAAP measure most directly comparable to Retail Gross Margin is operating income (loss). The following table presents a reconciliation of Retail Gross Margin to operating income (loss) for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Reconciliation of Retail Gross Margin to Operating income:				
Operating income	$ 29,154	$ 46,095	$ 76,130	$ 23,346
Plus:				
Depreciation and amortization	7,278	9,496	24,084	31,963
General and administrative expense	19,080	27,629	66,087	94,352
Less:				
Net asset optimization (expense) revenues	(558)	(254)	(319)	2,242
Gain (loss) on non-trading derivative instruments	2,550	12,528	(14,019)	(42,741)
Cash settlements on non-trading derivative instruments	6,489	12,764	33,153	33,677
Retail Gross Margin	$ 47,031	$ 58,182	$ 147,486	$ 156,483
Retail Gross Margin - Retail Electricity Segment	$ 42,762	$ 53,143	$ 109,141	$ 116,730
Retail Gross Margin - Retail Natural Gas Segment	$ 4,269	$ 5,039	$ 38,345	$ 39,753

Our non-GAAP financial measures of Adjusted EBITDA and Retail Gross Margin should not be considered as alternatives to net income (loss), net cash provided by (used in) operating activities, or operating income (loss). Adjusted EBITDA and Retail Gross Margin are not presentations made in accordance with GAAP and have limitations as analytical tools. You should not consider Adjusted EBITDA or Retail Gross Margin in isolation or as a substitute for analysis of our results as reported under GAAP. Because Adjusted EBITDA and Retail Gross Margin exclude some, but not all, items that affect net income (loss), net cash provided by operating activities, and operating income (loss), and are defined differently by different companies in our industry, our definition of Adjusted EBITDA and Retail Gross Margin may not be comparable to similarly titled measures of other companies.

Management compensates for the limitations of Adjusted EBITDA and Retail Gross Margin as analytical tools by reviewing the comparable GAAP measures, understanding the differences between the measures and incorporating these data points into management's decision-making process.

Consolidated Results of Operations

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

(In Thousands)	Three Months Ended September 30,	
	2020	2019
Revenues:		
Retail revenues	$ 141,188	$ 207,341
Net asset optimization (expense) revenues	(558)	(254)
Total Revenues	140,630	207,087
Operating Expenses:		
Retail cost of revenues	85,118	123,867
General and administrative expense	19,080	27,629
Depreciation and amortization	7,278	9,496
Total Operating Expenses	111,476	160,992
Operating income	29,154	46,095
Other (expense)/income:		
Interest expense	(1,487)	(2,174)
Interest and other income	80	322
Total other expense	(1,407)	(1,852)
Income before income tax expense	27,747	44,243
Income tax expense	5,141	6,567
Net income	$ 22,606	$ 37,676
Other Performance Metrics:		
Adjusted EBITDA (1)	$ 27,749	$ 28,084
Retail Gross Margin (1)	$ 47,031	$ 58,182
Customer Acquisition Costs	$ 207	$ 4,423
Average Monthly RCE Attrition	3.0 %	4.0 %

(1) Adjusted EBITDA and Retail Gross Margin are non-GAAP financial measures. See " — Non-GAAP Performance Measures" for a reconciliation of Adjusted EBITDA and Retail Gross Margin to their most directly comparable GAAP financial measures.

Total Revenues. Total revenues for the three months ended September 30, 2020 were approximately $140.6 million, a decrease of approximately $66.5 million, or 32%, from approximately $207.1 million for the three months ended September 30, 2019, as indicated in the table below (in millions). This decrease was primarily due to a decrease in electricity and natural gas volumes as a result of milder weather and a smaller customer book in the third quarter of 2020 as compared to the third quarter of 2019, partially offset by an increase in electricity unit revenue per MWh.

Change in electricity volumes sold	$ (70.0)
Change in natural gas volumes sold	(1.6)
Change in electricity unit revenue per MWh	6.0
Change in natural gas unit revenue per MMBtu	(0.5)
Change in net asset optimization revenue	(0.4)
Change in total revenues	$ (66.5)

Retail Cost of Revenues. Total retail cost of revenues for the three months ended September 30, 2020 was approximately $85.1 million, a decrease of approximately $38.8 million, or 31%, from approximately $123.9 million for the three months ended September 30, 2019, as indicated in the table below (in millions). This decrease was primarily due to a decrease in electricity and natural gas volumes as a result of milder weather and a smaller customer book in 2020, a decrease in natural gas and electricity unit cost and a change in the fair value of our retail derivative portfolio.

Change in electricity volumes sold	$	(51.1)
Change in natural gas volumes sold		(0.8)
Change in electricity unit cost per MWh		(2.4)
Change in natural gas unit cost per MMBtu		(0.5)
Change in value of retail derivative portfolio		16.0
Change in retail cost of revenues	$	(38.8)

General and Administrative Expense. General and administrative expense for the three months ended September 30, 2020 was approximately $19.1 million, a decrease of approximately $8.5 million, or 31%, as compared to $27.6 million for the three months ended September 30, 2019. This decrease was primarily attributable to a decrease in sales and marketing costs in 2020 due to limitation of our door-to-door marketing as a result of COVID-19, lower bad debt expense in 2020 due to improved collection efforts and legal and regulatory settlements and litigation expense in the third quarter of 2019 that did not reoccur in 2020.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended September 30, 2020 was approximately $7.3 million, a decrease of approximately $2.2 million, or 23%, from approximately $9.5 million for the three months ended September 30, 2019. This decrease was primarily due to the decreased amortization expense associated with customer intangibles.

Customer Acquisition Cost. Customer acquisition cost for the three months ended September 30, 2020 was approximately $0.2 million, a decrease of approximately $4.2 million, or 96%, from approximately $4.4 million for the three months ended September 30, 2019. This decrease was primarily due to limitation on our ability to use door-to-door marketing as a result of COVID-19 and a reduction in targeted organic customer acquisitions as we focus our efforts to improve our organic sales channels, including vendor selection and sales quality.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

(In Thousands)	Nine Months Ended September 30,	
	2020	**2019**
Revenues:		
Retail revenues	$ 436,166	$ 625,300
Net asset optimization revenues	(319)	2,242
Total Revenues	435,847	627,542
Operating Expenses:		
Retail cost of revenues	269,546	477,881
General and administrative	66,087	94,352
Depreciation and amortization	24,084	31,963
Total Operating Expenses	359,717	604,196
Operating income	76,130	23,346
Other (expense)/income:		
Interest expense	(4,233)	(6,392)
Interest and other income	293	1,005
Total other expense	(3,940)	(5,387)
Income before income tax expense	72,190	17,959
Income tax expense	12,739	3,022
Net income	$ 59,451	$ 14,937
Other Performance Metrics:		
Adjusted EBITDA (1)	$ 81,897	$ 66,742
Retail Gross Margin (1)	$ 147,486	$ 156,483
Customer Acquisition Costs	$ 1,762	$ 13,608
RCE Attrition	4.1 %	4.4 %

(1) Adjusted EBITDA and Retail Gross Margin are non GAAP financial measures. See " — Non-GAAP Performance Measures" for a reconciliation of Adjusted EBITDA and Retail Gross Margin to their most directly comparable financial measures presented in accordance with GAAP.

Total Revenues. Total revenues for the nine months ended September 30, 2020 were approximately $435.8 million, a decrease of approximately $191.7 million, or 31%, from approximately $627.5 million for the nine months ended September 30, 2019, as indicated in the table below (in millions). This decrease was primarily due to a decrease in electricity and natural gas volumes as a result of a milder weather and a smaller customer book in 2020 as compared to 2019, partially offset by an increase in electricity unit revenue per MWh.

Change in electricity volumes sold	$ (194.2)
Change in natural gas volumes sold	(16.3)
Change in electricity unit revenue per MWh	21.3
Change in natural gas unit revenue per MMBtu	0.1
Change in net asset optimization revenue (expense)	(2.6)
Change in total revenues	$ (191.7)

Retail Cost of Revenues. Total retail cost of revenues for the nine months ended September 30, 2020 was approximately $269.5 million, a decrease of approximately $208.4 million, or 44%, from approximately $477.9 million for the nine months ended September 30, 2019, as indicated in the table below (in millions). This decrease was primarily due to a decrease in electricity and natural gas volumes as a result of a smaller customer book in 2020, a decrease in electricity unit cost per MWh, and a change in fair value of our retail derivative portfolio.

Change in electricity volumes sold	$	(152.2)
Change in natural gas volumes sold		(8.7)
Change in electricity unit cost per MWh		(13.1)
Change in natural gas unit cost per MMBtu		(6.2)
Change in value of retail derivative portfolio		(28.2)
Change in retail cost of revenues	$	(208.4)

General and Administrative Expense. General and administrative expense for the nine months ended September 30, 2020 was approximately $66.1 million, a decrease of approximately $28.2 million, or 30%, as compared to $94.3 million for the nine months ended September 30, 2019. This decrease was primarily attributable to the legal and regulatory settlements and increased litigation expense in 2019 that did not reoccur in 2020, a decrease in sales and marketing costs in 2020 due to limitation of our door-to-door marketing as a result of COVID-19 and lower bad debt expense in 2020 due to improved collection efforts.

Depreciation and Amortization Expense. Depreciation and amortization expense for the nine months ended September 30, 2020 was approximately $24.1 million, a decrease of approximately $7.9 million, or 25%, from approximately $32.0 million for the nine months ended September 30, 2019. This decrease was primarily due to the decreased amortization expense associated with customer relationship intangibles.

Customer Acquisition Cost. Customer acquisition cost for the nine months ended September 30, 2020 was approximately $1.8 million, a decrease of approximately $11.8 million, or 87%, from approximately $13.6 million for the nine months ended September 30, 2019. This decrease was primarily due to limitation on our ability to use door-to-door marketing as a result of COVID-19 and a reduction in targeted organic customer acquisitions as we focus our efforts to improve our organic sales channels, including vendor selection and sales quality.

Operating Segment Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands, except volume and per unit operating data)			
Retail Electricity Segment				
Total Revenues	$ 132,958	$ 197,010	$ 366,981	$ 539,878
Retail Cost of Revenues	82,061	119,100	241,712	433,175
Less: Net gain (loss) on non-trading derivatives, net of cash settlements	8,135	24,767	16,128	(10,027)
Retail Gross Margin [(1)] — Electricity	$ 42,762	$ 53,143	$ 109,141	$ 116,730
Volumes — Electricity (MWhs)	1,165,500	1,808,276	3,235,222	5,052,498
Retail Gross Margin [(2)] — Electricity per MWh	*$ 36.69*	*$ 29.39*	*$ 33.74*	*$ 23.10*
Retail Natural Gas Segment				
Total Revenues	$ 8,230	$ 10,331	$ 69,185	$ 85,422
Retail Cost of Revenues	3,057	4,767	27,834	44,706
Less: Net gain on non-trading derivatives, net of cash settlements	904	525	3,006	963
Retail Gross Margin [(1)] — Gas	$ 4,269	$ 5,039	$ 38,345	$ 39,753
Volumes — Gas (MMBtus)	949,088	1,119,126	8,198,827	10,127,857
Retail Gross Margin [(2)] — Gas per MMBtu	*$ 4.50*	*$ 4.50*	*$ 4.68*	*$ 3.93*

(1) Reflects the Retail Gross Margin attributable to our Retail Electricity Segment or Retail Natural Gas Segment, as applicable. Retail Gross Margin is a non-GAAP financial measure. See " —Non-GAAP Performance Measures" for a reconciliation of Retail Gross Margin to most directly comparable financial measures presented in accordance with GAAP.

(2) Reflects the Retail Gross Margin for the Retail Electricity Segment or Retail Natural Gas Segment, as applicable, divided by the total volumes in MWh or MMBtu, respectively.

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

Retail Electricity Segment

Total revenues for the Retail Electricity Segment for the three months ended September 30, 2020 were approximately $133.0 million, a decrease of approximately $64.0 million, or 33%, from approximately $197.0 million for the three months ended September 30, 2019. This decrease was largely due to lower volumes sold, resulting in a decrease of $70.0 million as a result of milder weather and a smaller customer book in 2020. This decrease was partially offset by higher retail electricity prices as a result of the decrease of C&I RCEs as a total percentage of our customer book, which resulted in an increase of $6.0 million.

Retail cost of revenues for the Retail Electricity Segment for the three months ended September 30, 2020 were approximately $82.1 million, a decrease of approximately $37.0 million, or 31%, from approximately $119.1 million for the three months ended September 30, 2019. This decrease was primarily due to fewer customers, resulting in a decrease of $51.1 million, a decrease in supply costs of $2.4 million, and a change in the value of our retail derivative portfolio used for hedging, which resulted in a increase of $16.5 million.

Retail gross margin for the Retail Electricity Segment for the three months ended September 30, 2020 was approximately $42.8 million, a decrease of approximately $10.3 million, or 19%, from approximately $53.1 million for the three months ended September 30, 2019, as indicated in the table below (in millions).

Change in volumes sold	$	(19.0)
Change in unit margin per MWh		8.7
Change in retail electricity segment retail gross margin	$	(10.3)

Retail Natural Gas Segment

Total revenues for the Retail Natural Gas Segment for the three months ended September 30, 2020 were approximately $8.2 million, a decrease of approximately $2.1 million, or 20%, from approximately $10.3 million for the three months ended September 30, 2019. This decrease was primarily attributable to lower volumes sold, which decreased total revenues by $1.6 million.

Retail cost of revenues for the Retail Natural Gas Segment for the three months ended September 30, 2020 were approximately $3.1 million, a decrease of $1.7 million, or 36%, from approximately $4.8 million for the three months ended September 30, 2019. This decrease was primarily due to lower volumes resulting in a decrease of $0.8 million, lower natural gas prices, which resulted in a decrease of $0.5 million, and a change in the value of our derivative portfolio used for hedging, which resulted in a decrease of $0.4 million.

Retail gross margin for the Retail Natural Gas Segment for the three months ended September 30, 2020 was approximately $4.3 million, a decrease of approximately $0.7 million, or 15%, from approximately $5.0 million for the three months ended September 30, 2019, as indicated in the table below (in millions).

Change in volumes sold	$	(0.8)
Change in unit margin per MMBtu		0.1
Change in retail natural gas segment retail gross margin	$	(0.7)

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Retail Electricity Segment

Total revenues for the Retail Electricity Segment for the nine months ended September 30, 2020 were approximately $367.0 million, a decrease of approximately $172.9 million, or 32%, from approximately $539.9 million for the nine months ended September 30, 2019. This decrease was largely due to a decrease in volumes, resulting in a decrease of $194.2 million. This was partially offset by higher weighted average revenue rates, due to our customer mix shifting away from large commercial customers, which resulted in an increase of $21.3 million.

Retail cost of revenues for the Retail Electricity Segment for the nine months ended September 30, 2020 was approximately $241.7 million, a decrease of approximately $191.5 million, or 44%, from approximately $433.2 million for the nine months ended September 30, 2019. This decrease was primarily due to a decrease in volumes, resulting in a decrease of $152.2 million. This decrease was further impacted by decreased electricity prices, which resulted in a decrease in retail cost of revenues of $13.1 million and a decrease of $26.2 million due to a change in the value of our retail derivative portfolio used for hedging.

Retail gross margin for the Retail Electricity Segment for the nine months ended September 30, 2020 was approximately $109.1 million, a decrease of approximately $7.6 million, or 7%, from approximately $116.7 million for the nine months ended September 30, 2019, as indicated in the table below (in millions).

Change in volumes sold	$	(41.9)
Change in unit margin per MWh		34.3
Change in retail electricity segment retail gross margin	$	(7.6)

Retail Natural Gas Segment

Total revenues for the Retail Natural Gas Segment for the nine months ended September 30, 2020 were approximately $69.2 million, a decrease of approximately $16.2 million, or 19%, from approximately $85.4 million for the nine months ended September 30, 2019. This decrease was primarily attributable to a decrease in volumes of $16.3 million, partially offset by higher rates, which resulted in an increase in total revenues of $0.1 million.

Retail cost of revenues for the Retail Natural Gas Segment for the nine months ended September 30, 2020 was approximately $27.8 million, a decrease of approximately $16.9 million, or 38%, from approximately $44.7 million for the nine months ended September 30, 2019. This decrease was due to decreased supply costs of $6.2 million, a decrease of $8.7 million related to decreased volumes, and a $2.0 million change in the fair value of our retail derivative portfolio used for hedging.

Retail gross margin for the Retail Natural Gas Segment for the nine months ended September 30, 2020 was approximately $38.3 million, a decrease of approximately $1.5 million, or 4%, from approximately $39.8 million for the nine months ended September 30, 2019, as indicated in the table below (in millions).

Change in volumes sold	$	(7.6)
Change in unit margin per MMBtu		6.1
Change in retail natural gas segment retail gross margin	$	(1.5)

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash generated from operations and borrowings under our Senior Credit Facility. Our principal liquidity requirements are to meet our financial commitments, finance current operations, fund organic growth and/or acquisitions, service debt and pay dividends. Our liquidity requirements fluctuate with our level of customer acquisition costs, acquisitions, collateral posting requirements on our derivative instruments portfolio, distributions, the effects of the timing between the settlement of payables and receivables, including the effect of bad debts, weather conditions, and our general working capital needs for ongoing operations. We believe that cash generated from operations and our available liquidity sources will be sufficient to sustain current operations and to pay required taxes and quarterly cash distributions, including the quarterly dividends to the holders of the Class A common stock and the Series A Preferred Stock, for the next twelve months. Estimating our liquidity requirements is highly dependent on then-current market conditions, including impacts of the COVID-19 pandemic, weather events, forward prices for natural gas and electricity, market volatility and our then existing capital structure and requirements.

We believe that the financing of any additional growth through acquisitions and/or the need for more liquidity in the remainder of 2020 may require further equity or debt financing and/or further expansion of our Senior Credit Facility.

Liquidity Position

The following table details our available liquidity as of September 30, 2020:

($ in thousands)		**September 30, 2020**
Cash and cash equivalents	$	75,347
Senior Credit Facility Availability (1)		55,733
Subordinated Debt Facility Availability (2) (3)		25,000
Total Liquidity	**$**	**156,080**

(1) Reflects maximum cash availability or amount of Letters of Credit that could be issued based on existing covenants as of September 30, 2020.
(2) The accordion of the Senior Credit Facility was exercised on October 30, 2020 from $187.5 million, to $202.5 million, which will positively affect liquidity in future quarters.
(3) The availability of the Subordinated Facility is dependent on our Founder's willingness and ability to lend. See "—Sources of Liquidity and Capital Resources— Amended and Restated Subordinated Debt Facility."

Borrowings and related posting of letters of credit under our Senior Credit Facility are subject to material variations on a seasonal basis due to the timing of commodity purchases to satisfy natural gas inventory requirements and to meet customer demands during periods of peak usage. Additionally, borrowings are subject to borrowing base and covenant restrictions.

For further discussion of our Senior Credit Facility and the Subordinated Debt Facility, see Note 9 "Debt."

Cash Flows

Our cash flows were as follows for the respective periods (in thousands):

	Nine Months Ended September 30,		
	2020	2019	Change
Net cash provided by operating activities	$ 83,948	$ 77,085	$ 6,863
Net cash used in investing activities	$ (1,219)	$ (6,490)	$ 5,271
Net cash used in financing activities	$ (65,017)	$ (76,651)	$ 11,634

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Cash Flows Provided by Operating Activities. Cash flows provided by operating activities for the nine months ended September 30, 2020 increased by $6.9 million compared to the nine months ended September 30, 2019. The increase was primarily the result of higher net income in 2020, and changes in working capital for the nine months ended September 30, 2020.

Cash Flows Used in Investing Activities. Cash flows used in investing activities decreased by $5.3 million for the nine months ended September 30, 2020. The decrease was primarily the result of the amount paid for acquisitions during the nine months ended September 30, 2019 with no corresponding acquisition payments during the nine months ended September 30, 2020.

Cash Flows Used in Financing Activities. Cash flows used in financing activities decreased by $11.6 million for the nine months ended September 30, 2020, primarily due to an $11.2 million payment to settle the TRA liability during the nine months ended September 30, 2019 and a payment of $2.0 million related to a Verde Promissory Note made during the nine months ended September 30, 2019, both of which did not reoccur during the nine months ended September 30, 2020.

Sources of Liquidity and Capital Resources

Senior Credit Facility

As of September 30, 2020, we had total commitments of $187.5 million under the Senior Credit Facility, of which $131.8 million was outstanding, including $31.8 million of outstanding letters of credit, with a maturity date of July 31, 2022.

On July 31, 2020, we entered into the Fourth Amendment, which, among other things, extended the maturity date of the Senior Credit Facility to July 31, 2022, and decreased the maximum borrowing capacity under the Senior Credit Facility to $187.5 million. The Fourth Amendment also revised the Fixed Charge Coverage Ratio, Maximum Total Leverage Ratio and Maximum Senior Secured Leverage Ratio (each as defined in the Senior Credit Facility), eliminated Bridge Loans, and provided for Share Buyback Loans of up to $80.0 million, which permit the Company to repurchase up to an aggregate of 8,000,000 shares of Class A common stock or $80.0 million of Series A Preferred Stock. Under the Senior Credit Facility, we have various limits on advances for Working Capital Loans, Letters of Credit and Share Buyback Loans. For a description of the terms and conditions of our Senior Credit Facility, as amended, including descriptions of the interest rate, commitment fee, covenants and terms of default, please see Note 9 "Debt" in the notes to our condensed consolidated financial statements.

On October 30, 2020, a new lender was added to the Senior Credit Facility, bringing total commitments under the Senior Credit Facility to $202.5 million.

As of September 30, 2020, we were in compliance with the covenants under our Senior Credit Facility. Based upon existing covenants as of September 30, 2020, we had availability to borrow up to $55.7 million under the Senior Credit Facility.

Amended and Restated Subordinated Debt Facility

Our Subordinated Debt Facility allows us to draw advances in increments of no less than $1.0 million per advance up to $25.0 million. Although we may use the Subordinated Debt Facility from time to time to enhance short term liquidity, we do not view the Subordinated Debt Facility as a material source of liquidity. See Note 9 "Debt" for additional details. As of September 30, 2020, there was zero outstanding borrowings under the Subordinated Debt Facility, and availability to borrow up to $25.0 million under the Subordinated Debt Facility, dependent on our Founder's willingness and ability to lend.

Uses of Liquidity and Capital Resources

Repayment of Current Portion of Senior Credit Facility

Our Senior Credit Facility, as amended by the Fourth Amendment, matures in July 2022, and thus, no amounts are due currently. However, due to the revolving nature of the facility, excess cash available is generally used to reduce the balance outstanding, which at September 30, 2020 was $100.0 million. The current variable interest rate on the facility at September 30, 2020 was 3.75%.

Customer Acquisitions

Our customer acquisition strategy consists of customer growth obtained through organic customer additions as well as opportunistic acquisitions. During the three months ended September 30, 2020 and 2019, we spent a total of $0.2 million and $4.4 million, respectively, on organic customer acquisitions.

Capital Expenditures

Our capital requirements each year are relatively low and generally consist of minor purchases of equipment or information system upgrades and improvements. Capital expenditures for the nine months ended September 30, 2020 and 2019 included $1.2 million and $0.6 million, respectively, related to information systems improvements.

Dividends and Distributions

During the nine months ended September 30, 2020, we paid dividends to holders of our Class A common stock for the quarter ended December 31, 2019, March 31, 2020 and June 30, 2020 of approximately $0.18125 per share for each dividend declaration or $7.9 million in the aggregate. In order to pay our stated dividends to holders of our Class A common stock, our subsidiary, Spark HoldCo is required to make corresponding distributions to holders of its units, including those holders that own our Class B common stock (our non-controlling interest holder). As a result, during the nine months ended September 30, 2020, Spark HoldCo made corresponding distributions of $11.3 million to our non-controlling interest holders.

For the nine months ended September 30, 2020, we paid $6.0 million related to dividends to holders of Series A Preferred Stock. As of September 30, 2020, we had accrued $1.9 million related to dividends to holders of our Series A Preferred Stock, which was paid on October 15, 2020. For the full year ended December 31, 2020, at the stated dividend rate of the Series A Preferred Stock of $2.1875 per share, we would be required to pay dividends of $7.9 million in the aggregate based on the Series A Preferred Stock outstanding as of September 30, 2020.

On October 19, 2020, our Board of Directors declared a quarterly dividend of $0.18125 per share of the Class A common stock and $0.546875 for the Series A Preferred Stock for the third quarter of 2020. Dividends on Class A common stock will be paid on December 15, 2020 to the holders of record as of December 1, 2020, and Series A Preferred Stock dividends will be paid on January 15, 2021 to the holders of record as of January 1, 2021.

Our ability to pay dividends in the future will depend on many factors, including potential impacts of COVID-19, the performance of our business and restrictions under our Senior Credit Facility. If our business does not generate sufficient cash for Spark HoldCo to make distributions to us to fund our Class A common stock and Series A Preferred Stock dividends, we may have to borrow to pay such amounts or temporarily suspend the dividends. Further, even if our business generates cash in excess of our current annual dividend (of $0.725 per share on our Class A common stock), we may reinvest such excess cash flows in our business and not increase the dividends payable to holders of our Class A common stock. Our future dividend policy is within the discretion of our Board of Directors and will depend upon the results of our operations, our financial condition, capital requirements and investment opportunities.

Share Repurchase Program

On August 18, 2020, our Board of Directors authorized a share repurchase program of up to $20.0 million of Class A common stock through August 18, 2021. During the three and nine months ended September 30, 2020, we repurchased 45,148 shares of our Class A common stock at a weighted average price of $8.75 per share, for a total cost of $0.4 million. Please see “Unregistered Sales of Equity Securities and Use of Proceeds” in Part II of this Form 10-Q.

Collateral Posting Requirements

Our contractual agreements with certain local regulated utilities and our supplier counterparties require us to maintain restricted cash balances or letters of credit as collateral for credit risk or the performance risk associated with the future delivery of natural gas or electricity. Due to the COVID-19 pandemic, certain local regulated utilities and our supplier counterparties have contacted us inquiring about our financial condition and the impact the pandemic is having on our operations. These inquiries may lead to additional requests for cash or letters of credit in an effort to mitigate the risk of default in paying our obligations related to the future delivery of natural gas or electricity. As of September 30, 2020, we have not been required to post additional collateral as a result of COVID-19. We have no way to predict what the local regulated utilities or our supplier counterparties may ask for in terms of additional collateral in the future, or how long any increased levels of collateral may endure. Please see “Item 1A—Risk Factors” in this Report.

Off-Balance Sheet Arrangements

As of September 30, 2020, we had no material "off-balance sheet arrangements."

Related Party Transactions

For a discussion of related party transactions, see Note 13 "Transactions with Affiliates" to Part I, Item 1 of this Report.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are described in “Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our 2019 Form 10-K. There have been no changes to these policies and estimates since the date of our 2019 Form 10-K.

Refer to Note 2 "Basis of Presentation and Summary of Significant Accounting Policies" to Part I, Item 1 of this Report for a discussion on recent accounting pronouncements.

Contingencies

In the ordinary course of business, we may become party to lawsuits, administrative proceedings and governmental investigations, including regulatory and other matters. Except as described in Note 12 "Commitments and Contingencies" to Part I, Item 1 of this Report, as of September 30, 2020, management did not believe that any of our outstanding lawsuits, administrative proceedings or investigations could result in a material adverse effect. Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. For a discussion of the status of current legal and regulatory matters, see Note 12 "Commitments and Contingencies" to Part I, Item 1 of this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in commodity prices and interest rates, as well as counterparty credit risk. We employ established risk management policies and procedures to manage, measure, and limit our exposure to these risks.

Commodity Price Risk

We hedge and procure our energy requirements from various wholesale energy markets, including both physical and financial markets and through short and long-term contracts. Our financial results are largely dependent on the margin we realize between the wholesale purchase price of natural gas and electricity plus related costs and the retail sales price we charge our customers for these commodities. We actively manage our commodity price risk by entering into various derivative or non-derivative instruments to hedge the variability in future cash flows from fixed-price forecasted sales and purchases of natural gas and electricity in connection with our retail energy operations. These instruments include forwards, futures, swaps, and option contracts traded on various exchanges, such as NYMEX and Intercontinental Exchange, or ICE, as well as over-the-counter markets. These contracts have varying terms and durations, which range from a few days to several years, depending on the instrument. We also utilize similar derivative contracts in connection with our asset optimization activities to attempt to generate incremental gross margin by effecting transactions in markets where we have a retail presence. Generally, any such instruments that are entered into to support our retail electricity and natural gas business are categorized as having been entered into for non-trading purposes, and instruments entered into for any other purpose are categorized as having been entered into for trading purposes.

Our net gain (loss) on our non-trading derivative instruments, net of cash settlements, was $9.0 million and $25.3 million for the three months ended September 30, 2020 and 2019, respectively and $19.1 million and $(9.1) million for the nine months ended September 30, 2020 and 2019, respectively.

We have adopted risk management policies to measure and limit market risk associated with our fixed-price portfolio and our hedging activities. For additional information regarding our commodity price risk and our risk management policies, see “Item 1A—Risk Factors” in our 2019 Form 10-K.

We measure the commodity risk of our non-trading energy derivatives using a sensitivity analysis on our net open position. As of September 30, 2020, our Gas Non-Trading Fixed Price Open Position (hedges net of retail load) was a short position of 28,700 MMBtu. An increase of 10% in the market prices (NYMEX) from their September 30, 2020 levels would have decreased the fair market value of our net non-trading energy portfolio by less than $0.1 million. Likewise, a decrease of 10% in the market prices (NYMEX) from their September 30, 2020 levels would have increased the fair market value of our non-trading energy derivatives by less than $0.1 million. As of September 30, 2020, our Electricity Non-Trading Fixed Price Open Position (hedges net of retail load) was a short position of 179,410 MWhs. An increase of 10% in the forward market prices from their September 30, 2020 levels would have decreased the fair market value of our net non-trading energy portfolio by $1.4 million. Likewise, a decrease of 10% in the forward market prices from their September 30, 2020 levels would have increased the fair market value of our non-trading energy derivatives by $1.4 million.

Credit Risk

In many of the utility services territories where we conduct business, Purchase of Receivables ("POR programs") have been established, whereby the local regulated utility purchases our receivables, and becomes responsible for billing the customer and collecting payment from the customer. These POR programs result in substantially all of our credit risk being with the utility and not to our end-use customers in these territories. Approximately 64% and 68% of our retail revenues were derived from territories in which substantially all of our credit risk was with local regulated utility companies for the three months ended September 30, 2020 and 2019, respectively, and 64% and 67% for the nine months ended September 30, 2020 and 2019, respectively all of which had investment grade ratings as of such date.

We paid these local regulated utilities a weighted average discount of 1.4% and 0.9%, for the three months ended September 30, 2020 and 2019, respectively, and 1.1% and 0.9% for the nine months ended September 30, 2020 and 2019, respectively, of total revenues for customer credit risk protection. In certain of the POR markets in which we operate, the utilities limit their collections exposure by retaining the ability to transfer a delinquent account back to us for collection when collections are past due for a specified period.

If our collection efforts are unsuccessful, we return the account to the local regulated utility for termination of service to the extent the ability to terminate service has not been limited as a result of COVID-19. Under these service programs, we are exposed to credit risk related to payment for services rendered during the time between when the customer is transferred to us by the local regulated utility and the time we return the customer to the utility for termination of service, which is generally one to two billing periods. We may also realize a loss on fixed-price customers in this scenario as we will have already fully hedged the customer's expected commodity usage for the life of the contract.

In non-POR markets (and in POR markets where we may choose to direct bill our customers), we manage customer credit risk through formal credit review in the case of commercial customers, and credit score screening, deposits and disconnection for non-payment, in the case of residential customers. Economic conditions (including impacts from COVID-19) may affect our customers' ability to pay bills in a timely manner, which could increase customer delinquencies and may lead to an increase in bad debt expense. Our bad debt expense for the three months ended September 30, 2020 and 2019 was approximately 0.9% and 2.7% of non-POR market retail revenues, respectively, and our bad debt expense for the nine months ended September 30, 2020 and 2019 was approximately 2.0% and 3.4% of non-POR market retail revenues, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Drivers of Our Business—Customer Credit Risk" for an analysis of our bad debt expense related to non-POR markets during the nine months ended September 30, 2020.

The current COVID-19 pandemic has caused regulatory agencies and other governmental authorities to take, and potentially continue to take, emergency or other actions in light of the pandemic that may impact our customer credit risk, including prohibiting the termination of service for non-payment during the current COVID-19 pandemic, requiring deferred payment plans for certain customers unable to pay their bill, and utilities increasing POR fees they charge us in an effort to recoup their bad debts losses. Please see "Item 1A—Risk Factors" in this Report.

We are exposed to wholesale counterparty credit risk in our retail and asset optimization activities. We manage this risk at a counterparty level and secure our exposure with collateral or guarantees when needed. At September 30, 2020, less than $0.1 million of our total exposure of $1.6 million was either with a non-investment grade counterparty or otherwise not secured with collateral or a guarantee. The credit worthiness of the remaining exposure with other customers was evaluated with no material allowance recorded at September 30, 2020.

Interest Rate Risk

We are exposed to fluctuations in interest rates under our variable-price debt obligations. At September 30, 2020, we were co-borrowers under the Senior Credit Facility, under which $100.0 million of variable rate indebtedness was outstanding. Based on the average amount of our variable rate indebtedness outstanding during the three months ended September 30, 2020, a 1% increase in interest rates would have resulted in additional annual interest expense of approximately $1.0 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of September 30, 2020 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 12 "Commitments and Contingencies" to Part I, Item 1 of this Report, which is incorporated by reference into this Part II, Item 1, for a description of certain ligation, legal proceedings, and regulatory matters.

Item 1A. Risk Factors.

Security holders and potential investors in our securities should carefully consider the risk factors under "Item 1A— Risk Factors" in our 2019 Form 10-K and in our Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020. There has been no material change in our risk factors from those described in the 2019 Form 10-K, except as described below. The COVID-19 pandemic could increase the significance of the risks previously disclosed in our 2019 Form 10-K. Our description of risks are not the sole risks for investors. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

We face risks related to health epidemics, pandemics and other outbreaks, including COVID-19.

The ongoing COVID-19 pandemic is a rapidly evolving situation around the globe that continues to adversely impact economic activity and conditions worldwide. In particular, efforts to control the spread of COVID-19 have led to governmental shutdowns, business closures, and disruptions to supply chains and consumer behaviors around the world. The ultimate extent of such impact on our operations is unknown at this time. We are continuing to monitor developments involving our workforce, customers and suppliers and cannot predict whether COVID-19 will have a material impact on our business, financial condition or results of operations. However, an extended slowdown of the United States' economic growth, demand for commodities and/or material changes in governmental policy could result in lower economic growth and lower demand for natural gas and electricity in our key markets as well as the ability of various employees, customers, contractors, suppliers and other business partners to fulfill their obligations, which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to direct credit risk for certain customers who may fail to pay their bills as they become due.

We bear direct credit risk related to customers located in markets that have not implemented POR programs as well as indirect credit risk in those POR markets that pass collection efforts along to us after a specified non-payment period. As of September 30, 2020, customers in non-POR markets represented approximately 36% of our retail revenues. We generally have the ability to terminate contracts with customers in the event of non-payment, but in most states in which we operate we cannot disconnect their natural gas or electricity service. In POR markets where the local regulated utility has the ability to return non-paying customers to us after specified periods, we may realize a loss for several billing periods until we can terminate these customers' contracts. We may also realize a loss on fixed-price customers in this scenario due to the fact that we will have already fully hedged the customer's expected commodity usage for the life of the contract and we also remain liable to our suppliers of natural gas and electricity for the cost of our supply commodities. Furthermore, in the Texas market, we are responsible for billing the distribution charges for the local regulated utility and are at risk for these charges, in addition to the cost of the commodity, in the event customers fail to pay their bills. Changing economic factors, such as rising unemployment rates and energy prices also result in a higher risk of customers being unable to pay their bills when due.

In addition, the ongoing COVID-19 pandemic has caused regulatory agencies and other governmental authorities to take, and potentially continue to take, emergency or other actions in light of the pandemic that continue to impact us, including prohibiting the termination of service for non-payment during the current COVID-19 pandemic, requiring deferred payment plans for certain customers unable to pay their bill, and utilities increasing POR fees they charge us in an effort to recoup their bad debts losses. Because of the time lag between the delivery of electricity and natural gas, the issuance of an invoice, and the customer's payment due date, there may be a substantial lag in time before we are able to determine specific trends in bad debt expense as a result of COVID-19. We are also monitoring other events that may have an impact on our credit risk, such as the expiration of unemployment benefits in September 2020 in many of our service territories. These actions taken by regulatory agencies and governmental authorities may impact our financial results, cash flow and liquidity and the duration of these changes are unknown. At this time, we are unable to predict the impact that this or other related events may have on our collection efforts due to non-payment.

Our financial results may be adversely impacted by weather conditions; changes in consumer demand.

Weather conditions directly influence the demand for and availability of natural gas and electricity and affect the prices of energy commodities. Generally, on most utility systems, demand for natural gas peaks in the winter and demand for electricity peaks in the summer. Typically, when winters are warmer or summers are cooler, demand for energy is lower than expected, resulting in less natural gas and electricity consumption than forecasted. When demand is below anticipated levels due to weather patterns, we may be forced to sell excess supply at prices below our acquisition cost, which could result in reduced margins or even losses.

Conversely, when winters are colder or summers are warmer, consumption may outpace the volumes of natural gas and electricity against which we have hedged, and we may be unable to meet increased demand with storage or swing supply. In these circumstances, we may experience reduced margins or even losses if we are required to purchase additional supply at higher prices. We may fail to accurately anticipate demand due to fluctuations in weather or to effectively manage our supply in response to a fluctuating commodity price environment.

As a result of the COVID-19 pandemic, we experienced slight increases in residential demand, and slight decreases in C&I demand. As a result of the COVID-19 pandemic, we may experience changes in customer demand in future periods that we cannot fully anticipate. While not weather related, these changes in demand may lead us to experience financial gains and/or losses in much the same fashion as a weather event as the current circumstances make it more difficult to accurately predict demand. While we continue to conduct analytics on our customer base to anticipate these changes in demand, we cannot predict how the COVID-19 pandemic will ultimately impact our hedging strategy related to our load forecasts.

Our access to marketing channels may be contingent upon the viability of our telemarketing and door-to-door agreements with our vendors.

Our vendors are essential to our telemarketing and door-to-door sales activities. Our ability to increase revenues in the future will depend significantly on our access to high quality vendors. If we are unable to attract new vendors and retain existing vendors to achieve our marketing targets, our growth may be materially reduced. There can be no assurance that competitive conditions will allow these vendors and their independent contractors to continue to successfully sign up new customers. Further, if our products are not attractive to, or do not generate sufficient revenue for our vendors, we may lose our existing relationships. In addition, the decline in landlines reduces the number of potential customers that may be reached by our telemarketing efforts and as a result our telemarketing sales channel may become less viable and we may be required to use more door-to-door marketing. Door-to-door marketing is continually under scrutiny by state regulators and legislators, which may lead to new rules and regulations that impact our ability to use these channels.

Due to the COVID-19 pandemic, certain Public Utility Commissions, regulatory agencies, and other governmental authorities in most of our markets continue to maintain orders prohibiting energy services companies from door-to-door marketing, and in some cases telemarketing, during the pandemic, which has restricted some of the manners we use to market for organic sales. Since March 2020, the Company continues to hold off on active door-to-door marketing activities in all markets regardless of states' regulations.

During the three months ended September 30, 2020, we added approximately 12,000 RCEs through organic web sales and telemarketing activities. This amount was significantly lower than historical periods due to the marketing limitations discussed above, as well as an active decision to slow sales activities as we focus our efforts to improve our organic sales channels, including vendor selections and sales quality. As most markets continue to enforce a ban on door-to-door activities, and we are focused on rebuilding our sales infrastructure, we do not anticipate piloting door-to-door campaigns until late fourth quarter of 2020, but we will continue to market in the manners that are permitted. Although we expect to acquire less customers organically in future periods than we have historically while marketing restrictions are in place, which may cause our customer book to decrease, we are unable to predict the ultimate effect on our organic sales, financial results, cash flows, and liquidity at this time.

Any increased collateral requirements in connection with our supply activities may restrict our liquidity.

Our contractual agreements with certain local regulated utilities and our supplier counterparties require us to maintain restricted cash balances or letters of credit as collateral for credit risk or the performance risk associated with the future delivery of natural gas or electricity. These collateral requirements may increase as we grow our customer base. Collateral requirements will increase based on the volume or cost of the commodity we purchase in any given month and the amount of capacity or service contracted for with the local regulated utility. Significant changes in market prices also can result in fluctuations in the collateral that local regulated utilities or suppliers require.

In addition, due to the COVID-19 pandemic, certain local regulated utilities and our supplier counterparties have contacted us inquiring about our financial condition and the impact the pandemic is having on our operations. These inquiries may lead to additional requests for cash or letters of credit in an effort to mitigate the risk of default in paying our obligations related to the future delivery of natural gas or electricity. As of September 30, 2020, we have not been required to post additional collateral as a result of COVID-19. We have no way to predict what the local regulated utilities or our supplier counterparties may ask for in terms of additional collateral in the future or how long any increased levels of collateral may endure.

The effectiveness of our operations and future growth depend in part on the amount of cash and letters of credit available to enter into or maintain these contracts. The cost of these arrangements may be affected by changes in credit markets, such as interest rate spreads in the cost of financing between different levels of credit ratings. Although we currently have ample liquidity to address any increased collateral requirements, these liquidity requirements may be greater than we anticipate or are able to meet.

Compliance with New York Public Service Commission Orders may adversely impact customer acquisition and renewal revenue and profitability

In December 2017, the New York Public Service Commission ("PSC") held an evidentiary hearing to assess the retail energy market in New York. On September 18, 2020, the PSC issued an order adopting the changes to the New York retail energy market, with the product restrictions going into effect in 150 days, on February 15, 2021 ("2020 Order"). The 2020 Order limits the types of the services energy retailer marketers may offer new customers or renewals, in terms of pricing for non-renewable commodities and renewable product offerings. Although the Company is working to ensure that its products and services are fully compatible with the 2020 Order, such compliance may adversely impact customer acquisition and renewal revenue and profitability, and organic growth. The Company is evaluating its options and seeking additional clarity to the 2020 Order from the PSC.

Pursuant to our cash dividend policy, we distribute a portion of our cash through regular quarterly dividends on our Class A common stock and Series A Preferred Stock, and our ability to grow and make acquisitions with cash on hand could be limited.

Pursuant to our cash dividend policy, we have historically distributed and intend in the future to distribute, a portion of our cash through regular quarterly dividends to holders of our Class A common stock and dividends on our Series A Preferred Stock. As such, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations, and we may have to rely upon external financing sources, including the issuance of debt, equity securities, convertible subordinated notes and borrowings under our Senior Credit Facility and

Subordinated Facility. These sources may not be available, and our ability to grow and maintain our business may be limited.

Due to the COVID-19 pandemic, we may have liquidity needs that would prevent us from continuing our historical practice as it relates to the payment of dividends on our Class A common stock and Series A Preferred Stock. The primary factors that would lead to a change in the dividend policy would be decreased liquidity due to a decreasing customer book, bad debt associated with the policies adopted by state and regulatory authorities, and increased collateral requirements from suppliers. At this time, we cannot predict the impact the pandemic will have on our ability to continue to pay shareholder dividends.

We cannot guarantee that our Repurchase Program will enhance shareholder value and purchases, if any, could increase the volatility of the price of our Class A Common Stock.

Our Board of Directors has authorized a repurchase program, which permits us to purchase our Class A common stock through August 18, 2021 (the "Common Stock Repurchase Program"). The Common Stock Repurchase Program does not obligate us to purchase any particular amount of Class A common stock. The specific timing and amount of purchases, if any, will depend upon several factors, including ongoing assessments of capital needs, the market price of the Class A common stock, and other factors, including general market conditions. There can be no assurance that we will make future purchases of Class A common stock or that we will purchase a sufficient number of shares to satisfy market expectations.

Purchases of our Class A common stock could affect the market price and increase volatility of our Class A common stock. We cannot provide any assurance that purchases under the Common Stock Repurchase Program will be made at the best possible price. Additionally, purchases under our Common Stock Repurchase Program could diminish our cash reserves or increase borrowings under our Senior Credit Facility or Subordinated Facility, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Although our Common Stock Repurchase Program is intended to enhance long-term shareholder value, there is no assurance that it will do so.

We are permitted to and could discontinue our Common Stock Repurchase Program prior to its expiration or completion. The existence of the Common Stock Repurchase Program could cause our Class A common stock price to be higher than it would be in the absence of such a program, and any such discontinuation could cause the market price of our Class A common stock to decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information regarding purchases of our Class A common stock by us during the three months ended September 30, 2020. Stock purchases may be made in the open market or in privately negotiated transactions based on ongoing assessments of capital needs, the market price of the Class A common stock, and other factors, including general market conditions. The share buyback program does not obligate us to acquire any specific dollar amount or number of shares of Class A common stock, and it may be terminated prior to completion.

Period	Total Number of Class A Common Stock Purchased		Average Price Paid Per Share of Class A Common Stock	Total Number of Class A Common Stock Purchased as Part of Publicly Announced Program [1]		Approximate Dollar Value of Class A Common Stock That May Yet Be Purchased Under the Program (in thousands) [1]
July 1, 2020 - July 31, 2020	—	$	—	—	$	—
August 1, 2020 - August 31, 2020 [2]	38,888	$	8.78	38,888	$	19,658
September 1 - September 30, 2020 [2]	6,260	$	8.55	6,260	$	19,605
Total	45,148	$	8.75	45,148	$	19,605

(1) On August 18, 2020, the Company announced that the Board of Directors authorized a share repurchase program of up to $20.0 million of Class A common stock through August 18, 2021.

(2) During August and September 2020, the Company acquired 45,148 shares of common stock at a weighted-average price of $8.75 for a total purchase price of $0.4 million (including fees, commissions and expenses). The number of shares of Class A common stock purchased reflects trades that were executed and settled during the month.

Item 6. Exhibits

The exhibits required to be filed by Item 6 are set forth in the Exhibit Index included below.

INDEX TO EXHIBITS

		Incorporated by Reference			
Exhibit	**Exhibit Description**	**Form**	**Exhibit Number**	**Filing Date**	**SEC File No.**
2.1#	Membership Interest Purchase Agreement, by and among Spark Energy, Inc., Spark HoldCo, LLC, Provider Power, LLC, Kevin B. Dean and Emile L. Clavet, dated as of May 3, 2016.	10-Q	2.1	5/5/2016	001-36559
2.2#	Membership Interest Purchase Agreement, by and among Spark Energy, Inc., Spark HoldCo, LLC, Retailco, LLC and National Gas & Electric, LLC, dated as of May 3, 2016.	10-Q	2.2	5/5/2016	001-36559
2.3#	Amendment No. 1 to the Membership Interest Purchase Agreement, dated as of July 26, 2016, by and among Spark Energy, Inc., Spark HoldCo, LLC, Provider Power, LLC, Kevin B. Dean and Emile L. Clavet.	8-K	2.1	8/1/2016	001-36559
2.4#	Membership Interest and Stock Purchase Agreement, by and among Spark Energy, Inc., CenStar Energy Corp. and Verde Energy USA Holdings, LLC, dated as of May 5, 2017.	10-Q	2.4	5/8/2017	001-36559
2.5	First Amendment to the Membership Interest and Stock Purchase Agreement, dated July 1, 2017, by and among Spark Energy, Inc., CenStar Energy Corp., and Verde Energy USA Holdings, LLC.	8-K	2.1	7/6/2017	001-36559
2.6#	Agreement to Terminate Earnout Payments, effective January 12, 2018, by and among Spark Energy, Inc., CenStar Energy Corp., Woden Holdings, LLC (fka Verde Energy USA Holdings, LLC), Verde Energy USA, Inc., Thomas FitzGerald, and Anthony Menchaca.	8-K	2.1	1/16/2018	001-36559
2.7#	Asset Purchase Agreement, dated March 7, 2018, by and between Spark HoldCo, LLC and National Gas & Electric, LLC.	10-K	2.7	3/9/2018	001-36559
2.8#	Asset Purchase Agreement, by and between Spark HoldCo, LLC, Starion Energy Inc., Starion Energy NY Inc., and Starion Energy PA Inc., dated October 19, 2018.	8-K	2.1	10/25/2018	001-36559
2.9	First Amendment to Asset Purchase Agreement, by and between Spark HoldCo, LLC, Starion Energy Inc., Starion Energy NY Inc., and Starion Energy PA, Inc., effective May 1, 2020.	10-Q	2.9	8/5/2020	001-36559
3.1	Amended and Restated Certificate of Incorporation of Spark Energy, Inc.	8-K	3.1	8/4/2014	001-36559
3.2	Amended and Restated Bylaws of Spark Energy, Inc.	8-K	3.2	8/4/2014	001-36559
3.3	Certificate of Designations of Rights and Preferences of 8.75% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock	8-A	5	3/14/2017	001-36559
4.1	Class A Common Stock Certificate	S-1	4.1	6/30/2014	333-196375
10.1#	Amendment No. 4 to the Credit Agreement, dated as of July 31, 2020, by and among Spark Energy, Inc., the Co-Borrowers, the Issuing Banks party thereto, Cooperatieve Rabobank U.A., New York Branch, as agent, and the Banks party thereto.	10-Q	10.1	8/5/2020	001-36559
10.2*	New Bank Agreement, dated October 30, 2020, by and among Spark Energy, Inc., the Co-Borrowers, the Issuing Banks party thereto, Cooperatieve Rabobank U.A., New York Branch, as agent, the Banks party thereto and Gulf Capital, as new bank.				

31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32**	Certifications pursuant to 18 U.S.C. Section 1350.
101.INS*	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.INS)

* Filed herewith
** Furnished herewith
# Certain schedules, exhibits and annexes have been omitted in reliance on Item 601 (a)(5) of Regulation S-K, the registrant agrees to furnish supplementally a copy of any omitted schedule, exhibit or annex to the Commission upon request
† Compensatory plan or arrangement

SIGNATURES

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

Spark Energy, Inc.

November 4, 2020

/s/ James G. Jones II

James G. Jones II
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXECUTION VERSION

NEW BANK AGREEMENT

THIS NEW BANK AGREEMENT, dated as of October 30, 2020 (this "New Bank Agreement") is made by and among **SPARK HOLDCO, LLC**, a Delaware limited liability company, **SPARK ENERGY, LLC**, a Texas limited liability company, **SPARK ENERGY GAS, LLC**, a Texas limited liability company, **CENSTAR ENERGY CORP**, a New York corporation, **CENSTAR OPERATING COMPANY, LLC**, a Texas limited liability company, **Oasis Power, LLC**, a Texas limited liability company ("Oasis"), **Oasis Power Holdings, LLC**, a Texas limited liability company ("Oasis Holdings"), **ELECTRICITY MAINE, LLC**, a Maine limited liability company ("Maine"), **ELECTRICITY N.H., LLC**, a Maine limited liability company ("NH"), **PROVIDER POWER MASS, LLC**, a Maine limited liability company ("Mass"), **Major Energy Services LLC**, a New York limited liability company ("Major"), **Major Energy Electric Services LLC**, a New York limited liability company ("Electric"), **Respond Power LLC**, a New York limited liability company ("Respond") and **Perigee Energy, LLC**, a Texas limited liability company ("Perigee"), **VERDE ENERGY USA, INC.**, a Delaware corporation ("Verde Inc."), **VERDE ENERGY USA COMMODITIES, LLC**, a Delaware limited liability company ("Verde Commodities"), **VERDE ENERGY USA CONNECTICUT, LLC**, a Delaware limited liability company ("Verde Connecticut"), **VERDE ENERGY USA DC, LLC**, a Delaware limited liability company ("Verde DC"), **VERDE ENERGY USA ILLINOIS, LLC** , a Delaware limited liability company ("Verde Illinois"), **VERDE ENERGY USA MARYLAND, LLC**, a Delaware limited liability company ("Verde Maryland"), **VERDE ENERGY USA MASSACHUSETTS, LLC**, a Delaware limited liability company ("Verde Massachusetts"), **VERDE ENERGY USA NEW JERSEY, LLC**, a Delaware limited liability company ("Verde New Jersey"), **VERDE ENERGY USA NEW YORK, LLC**, a Delaware limited liability company ("Verde New York"); **VERDE ENERGY USA OHIO, LLC**, a Delaware limited liability company ("Verde Ohio"), **VERDE ENERGY USA PENNSYLVANIA, LLC**, a Delaware limited liability company ("Verde Pennsylvania"), **VERDE ENERGY USA TEXAS HOLDINGS, LLC**, a Delaware limited liability company ("Verde Texas Holdings"), **VERDE ENERGY USA TRADING, LLC**, a Delaware limited liability company ("Verde Trading"), **VERDE ENERGY SOLUTIONS, LLC**, a Delaware limited liability company ("Energy Solutions"), **VERDE ENERGY USA TEXAS, LLC**, a Texas limited liability company ("Verde Texas") and **HIKO ENERGY, LLC**, a New York limited liability company ("Hiko") (jointly, severally and together, the "Co-Borrowers," and each individually, a "Co-Borrower"), **SPARK ENERGY, INC.** ("Parent"), a Delaware corporation, and each of the undersigned subsidiaries of Parent that are guarantors (the "Guarantors"), **COÖPERATIEVE RABOBANK U.A., NEW YORK BRANCH**, in its capacity as administrative agent under the Credit Agreement (as defined below) (in such capacity, the "Agent"), and **GULF CAPITAL BANK** (the " New Bank"). Reference is made to the Credit Agreement dated as of May 19, 2017, among Parent, the Co-Borrowers, the banks party thereto from time to time (the "Banks"), and the Agent (as the same may be amended or modified from time to time, the "Credit Agreement"). Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement.

PRELIMINARY STATEMENTS

A. Pursuant to Section 2.02(a) of the Credit Agreement, and subject to the terms and conditions thereof, financial institutions may become Banks with Working Capital Commitments in the event the Co-Borrowers request an increase in the aggregate Working Capital Commitments and certain other conditions are met and satisfied.

B. The Co-Borrowers have given notice to the Agent of such a request pursuant to Section 2.02(a) of the Credit Agreement.

C. The Co-Borrowers, the Agent, and the New Bank now wish to enter into this New Bank Agreement to add the New Bank as a Bank under the Credit Agreement and to establish a Working Capital Commitment of $15,000,000 for the New Bank in accordance with the terms and conditions of the Credit Agreement, as well as a Share Buyback DDTL Commitment of $5,925,926 in accordance with the terms and conditions of the Credit Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and confessed, the parties hereto agree as follows:

1. Addition of New Bank. Pursuant to Section 2.02(a) of the Credit Agreement, New Bank is hereby added to the Credit Agreement as a Bank with a Working Capital Commitment of $15,000,000. The New Bank specifies the following as its address for notices:

Gulf Capital Bank
1 Riverway, Suite 150
Houston, TX 77056-1903

Attention: Warner Hernandez
Facsimile: (713) 999-8835

2. Share Buyback DDTL Commitments. Contemporaneous with the addition of such New Bank, such New Bank shall automatically obtain a Share Buyback DDTL Commitment in the amount of $5,925,926 pursuant to Section 2.02(a)(vi) of the Credit Agreement.

3. Delivery of Notes. If requested by the New Bank, the Co-Borrowers shall promptly execute and deliver to the New Bank a WC Note, dated as of the effective date of this New Bank Agreement, in the principal amount of the New Bank's Working Capital Commitment set forth in Section 1 above. If requested by the New Bank, the Co-Borrowers shall promptly execute and deliver to the New Bank a Share Buyback DDTL Note, dated as of the effective date

of this New Bank Agreement, in the principal amount of the New Bank's Share buyback DDTL Commitment set forth in Section 2 above.

4. Governing Law. This New Bank Agreement shall be construed in accordance with, and this New Bank Agreement, and all matters arising out of or relating in any way whatsoever to this New Bank Agreement (whether in contract, tort, or otherwise) shall be governed by, the law of the State of New York, other than those conflict of law provisions that would defer to the substantive laws of another jurisdiction. This governing law election has been made by the parties in reliance (at least in part) on Section 5-1401 of the General Obligation Law of the State of New York, as amended (as and to the extent applicable), and other applicable law.

5. Bank Credit Decision. The New Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank, and based on the Financial Statements referred to in Section 6.11 of the Credit Agreement and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this New Bank Agreement and to agree to the various matters set forth herein. The New Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement.

6. Payments and Reallocation. The New Bank shall pay to the Agent on the Increase Effective Date (as set forth in Section 12 below), in immediately available funds, an amount equal to the amount of the New Bank's Credit Percentage (determined after giving effect to the addition of the New Bank's Commitment hereunder) of the aggregate principal amount of the Loans and L/C Advances to be outstanding immediately upon the Increase Effective Date. Such amount paid by the New Bank shall be deemed the purchase price for the acquisition by the New Bank of such amount of Loans and L/C Advances from the other Banks upon the effectiveness of this New Bank Agreement. The Agent shall distribute such amounts as received from the New Bank as may be necessary so that the Loans and L/C Advances are held by the New Bank and the other Banks in accordance with their respective Credit Percentages (determined after giving effect to the addition of New Bank's Commitment hereunder).

7. Representations and Warranties of the Co-Borrowers. The Co-Borrowers represent and warrant as follows:

(a) the representations and warranties contained in the Credit Agreement, the Security Documents, the Guaranties, and each of the other Loan Documents are correct in all material respects (except for any representation and warranty that is qualified by materiality or reference to Material Adverse Effect, which representation and warranty shall be true and correct in all respects) on and as of the date of the addition of the New Bank as a Bank under the Credit Agreement and the establishment of the New Bank's Working Capital Commitment (and Share Buyback DDTL Commitment) pursuant to this New Bank Agreement, before and after giving effect to such events as though such representations and warranties were made on the date of such increase, except to the extent any such representations and warranties are expressly limited to an earlier date;

(b) no Default has occurred and is continuing, or would result from the increase in Working Capital Commitments described in this New Bank Agreement; and

(c) immediately before and after the increase in Working Capital Commitments described in this New Bank Agreement, the Loan Parties are in pro forma compliance with the financial covenants in Section 7.09 of the Credit Agreement.

8. Appointment of Agent. The New Bank hereby appoints and authorizes the Agent to take such action as Agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to the Agent thereby, together with such powers and discretion as are reasonably incidental thereto.

9. Default. Without limiting any other event that may constitute an Event of Default, the Co-Borrowers acknowledge and agree that any representation or warranty made by the Co-Borrowers set forth in this New Bank Agreement that proves to have been incorrect or misleading in any material respect when made shall constitute an "Event of Default" under the Credit Agreement. This New Bank Agreement is a "Loan Document" for all purposes.

10. Expenses. The Co-Borrowers agree to pay within ten (10) days of receipt of written demand therefore all costs and expenses of the Agent in connection with the preparation, execution and delivery of this New Bank Agreement, the WC Note and Share Buyback DDTL Note, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agent with respect thereto.

11. Counterparts; Facsimile Signature. This New Bank Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This New Bank Agreement shall become effective when the Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby. Delivery of an executed counterpart of a signature page of this New Bank Agreement by facsimile or in electronic (i.e., "pdf" or "tif") format shall be effective as delivery of a manually executed counterpart of this New Bank Agreement. The words "execution," "signed," "signature," and words of like import in this New Bank Agreement shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

12. Increase Effective Date. The Increase Effective Date is October 30, 2020.

[The Remainder of this Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this New Bank Agreement to be executed by their respective officers thereunto duly authorized, as of the date first written above.

CO-BORROWERS:

SPARK HOLDCO, LLC
SPARK ENERGY, LLC
SPARK ENERGY GAS, LLC
CenStar Energy CORP
CENSTAR OPERATING COMPANY, LLC
Oasis Power, LLC
Oasis Power Holdings, LLC
Electricity Maine, LLC
Electricity N.H., LLC
Provider Power Mass, LLC
Major Energy Services LLC
Major Energy Electric Services LLC
Respond Power LLC
Perigee Energy, LLC
VERDE ENERGY USA, INC.
VERDE ENERGY USA COMMODITIES, LLC
VERDE ENERGY USA CONNECTICUT, LLC
VERDE ENERGY USA DC, LLC
VERDE ENERGY USA ILLINOIS, LLC
VERDE ENERGY USA MARYLAND, LLC VERDE ENERGY USA MASSACHUSETTS, LLC
VERDE ENERGY USA NEW JERSEY, LLC VERDE ENERGY USA NEW YORK, LLC
VERDE ENERGY USA OHIO, LLC
VERDE ENERGY USA PENNSYLVANIA, LLC
VERDE ENERGY USA TEXAS HOLDINGS, LLC
VERDE ENERGY USA TRADING, LLC
VERDE ENERGY SOLUTIONS, LLC
VERDE ENERGY USA TEXAS, LLC
HIKO ENERGY, LLC

Each By: /s/ James G. Jones II
Name: James G. Jones II
Title: CFO
GUARANTORS:

SPARK ENERGY, INC.

By: /s/ James G. Jones II
Name: James G. Jones II
Title: CFO

AGENT:

COÖPERATIEVE RABOBANK U.A., NEW YORK BRANCH

By: /s/ Christopher Hartofilis
Name: Christopher Hartofilis
Title: Managing Director

By: /s/Jan Hendrik de Graaff
Name: Jan Hendrik de Graaff
Title: Managing Director

ISSUING BANKS:

COÖPERATIEVE RABOBANK U.A., NEW YORK BRANCH

By: /s/ Christopher Hartofilis
Name: Christopher Hartofilis
Title: Managing Director

By: /s/Jan Hendrik de Graaff
Name: Jan Hendrik de Graaff
Title: Managing Director

BOKF, NA, A NATIONAL BANKING ASSOCIATION (d/b/a BANK OF TEXAS)

By: /s/ Chris Frey
Name: Chris Frey
Title: VP Corporate Banking

NEW BANK:

GULF CAPITAL BANK

By: /s/ Kristen Mclean
Name: Kristen Mclean
Title: Senior Vice President

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, W. Keith Maxwell III, certify that:

1. I have reviewed this Quarterly Report (the “report”) on Form 10-Q of Spark Energy, Inc. (the “registrant”);

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer 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 the 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 control 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 control over financial reporting.

Date: November 4, 2020

/s/ W. Keith Maxwell III
W. Keith Maxwell III
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, James G. Jones II, certify that:

1. I have reviewed this Quarterly Report (the “report”) on Form 10-Q of Spark Energy, Inc. (the “registrant”);

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer 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 the 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 control 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 control over financial reporting.

Date: November 4, 2020

/s/ James G. Jones II
James G. Jones II
Chief Financial Officer
(Principal Accounting and Financial Officer)

EXHIBIT 32

Certification by the Principal Executive Officer and Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350,
Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the "Report") of Spark Energy, Inc., a Delaware corporation (the "Company"), as filed with the Securities and Exchange Commission on the date hereof, W. Keith Maxwell III, Principal Executive Officer of the Company and James G. Jones II, Principal Financial Officer of the Company, each certify, pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. This Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2020

/s/ W. Keith Maxwell III
W. Keith Maxwell III
Chief Executive Officer
(Principal Executive Officer)

/s/ James G. Jones II
James G. Jones II
Chief Financial Officer
(Principal Accounting and Financial Officer)