

TEXAS COMPETITION COUNTDOWN →

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Implementation of the 1999 Texas Electric Choice Act

Highlights from Senate Bill 7, the 1999 Texas Electric Choice Act

- The power to choose by 2002**
Electric competition will begin January 1, 2002, for most Texans currently served by investor-owned utilities.
- Freeze on electric rates**
For most Texas residential and small-business customers, existing electricity base rates were frozen as of September 1, 1999, and will remain frozen until competition begins.
- 6% reduction in overall prices once competition begins**
Once competition is underway, prices will drop by 6% for most customers of investor-owned utilities and will stay capped at that price for up to five years.
- Cleaner air**
Some power plants must reduce by 50% their nitrogen oxide emissions, a key contributor to ozone. Some coal plants must also reduce their sulfur dioxide emissions by 25%. These reductions will be equal to removing almost four million vehicles from Texas roads. Grandfathered power plants, which were exempted from the 1971 Texas Clean Air Act, must either meet these air emission reduction requirements by May 1, 2003, or shut down operations.
- More renewable energy for a cleaner environment**
Electric companies are required to more than triple the amount of power in Texas generated from renewable resources, such as sun and wind, by January 1, 2009.

Texas electric companies pass another transition milestone

Texas electric companies recently marked a milestone in the transition to competition when they provided the Public Utility Commission of Texas (PUC) with their unbundled costs for electricity transmission and distribution.

Under the 1999 Texas Electric Choice Act, every electric company must separate its business into a trio of companies:

- **the still-regulated wires company**, which is responsible for power transmission and distribution;
- **the newly competitive retail electric provider, or REP**,

which markets power to the public and acts as the customer point-of-contact; and

- **the newly competitive power generation company, or genco**, which generates power.

A few months ago, the state's electric utilities began this separation process by filing their business separation plans with the PUC, each company proposing its approach to this unbundling of business activities.

Then, March 31, Texas electric companies submitted their transmission and distribution (T&D) cost-unbundling plans,

which address the regulated costs of electricity delivery in the new, competitive marketplace.

Some utilities might experience rising T&D costs, due to factors like new T&D projects or the higher reliability standards required by the Electric Choice Act. But, as outlined by the Act, most residential and small commercial customers in Texas will still see their overall electric rates decrease by 6% once competition begins — regardless of the T&D portion.

In addition to determining the costs of delivering electricity,

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Federal restructuring update

Murkowski introduces new competition bill; Bliley to follow suit

U.S. Senator Frank Murkowski (R - AK), along with Senator Mary Landrieu (D - LA), recently introduced legislation he said will foster competition in the electric-power industry and ensure reliability of service. But, Senator Murkowski said, electric competition isn't his main objective. Rather, "competition is the means to achieve the goal of assuring consumers a reliable and reasonably priced supply of electricity," said Murkowski, who chairs the Senate Energy and Natural Resources Committee. Among the bill's key provisions are a clear separation of jurisdiction between state and federal government, and the repeal of the Public Utility Holding Company Act and the Public Utility Regulatory Policies Act.

Meanwhile, U.S. House Commerce Committee chairman Thomas Bliley (R - VA) has vowed to move forward this year with a measure to restructure the nation's electric-utility industry. Representative Bliley said work is already underway on the

electric-competition bill approved by the committee's Energy and Power Subcommittee late last year.

FERC's Hebert backs Barton bill

U.S. Federal Energy Regulatory Commission member Curt Hebert recently crossed the Commission's chairman, James Hoecker, when Hebert came out in support of U.S. Representative Joe Barton's (R - TX) electric-utility restructuring legislation. Hebert made his position clear in a letter to Barton that was intended as a response to an earlier letter sent by Hoecker to Representatives Thomas Bliley (R - VA) and Edward Markey (D - MA). Hoecker's letter attacked Barton's bill, calling it "disappointing." Hebert, however, said that though he and Hoecker "work well together," he disagrees. "I view . . . your bill from the business, not regulatory, point of view," wrote Hebert to Barton. "Therefore, I support your bill."

Barton against separate reliability bill

U.S. Representative Joe Barton (R - TX), who shepherded a comprehensive electric-utility restructuring measure through his House subcommittee late last year, recently said he is opposed to the idea of moving independent reliability legislation, should his bill fail. "I think if you try to

piecemeal the electricity issue, then you probably end up with unintended consequences that are probably bad," Barton said. "So I tend to be very negative on a stand-alone reliability bill." Barton remains optimistic that his legislation can move through Congress. "The fixin's are there," he said, "we just have to put it in the oven and cook it."

ASSOCIATION OF
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OF TEXAS, INC.



Central and South West Corporation ■ El Paso Electric Company ■ Entergy Texas ■ Reliant Energy HL&P ■ Southwestern Public Service Company ■ Texas-New Mexico Power Company ■ TXU

As Texas approaches electric competition, AECT is committed to:

- ensuring fair, consumer-friendly competition for all Texans
- providing a reliable electric infrastructure that ensures an ample supply of power for all Texans
- honoring the legislative intent of the 1999 Texas Electric Choice Act
- promoting an economically strong and environmentally healthy future for Texas

Texas electric companies

(continued from front)

investor-owned utilities will establish the Competition Transition Charge, or CTC, that will help with stranded-cost recovery. The new T&D rate will also include the System Benefit Fund fee, which exists for the exclusive purposes of financing consumer-education and

low-income assistance programs, and ensuring that neither the state public school system nor any individual school district loses any revenue due to property-tax changes caused by utility-industry restructuring.

While both the CTC and the System Benefit Fund fee will be

incorporated into T&D costs, they won't affect the 6% electric-rate reduction that will occur once competition is underway.

The PUC expects to complete its T&D cost rulemaking by April 2001.

- **Continued reliable service**

Working together with the Independent System Operator, the regulated transmission and distribution utilities will be responsible for ensuring the continued reliability of Texas' electricity system.

- **No "slamming," no "cramming"**

The Texas PUC will develop customer safeguards against "slamming" (unauthorized switching of your electricity provider) and "cramming" (adding unauthorized charges to your electric bill). Consumers who don't want electricity provider telephone solicitations may also sign up with the PUC on a "do not call" list.

- **Low-income assistance**

After competition begins in January 2002, low-income customers will receive assistance through reduced electric rates and programs targeted at improving energy efficiency of their homes.

- **Municipal utilities and co-ops have options**

Municipally owned utilities and electric cooperatives can set their own schedule and opt into competition at any time after January 1, 2002.

- **Protections to guarantee fair competition**

Safeguards have been established to govern the interaction between utilities and their affiliates, both during the transition to and after the introduction of competition, to avoid potential market power abuses and cross-subsidization between regulated and unregulated activities.

Texas scores high marks for competition progress

Almost every state has begun some part of the transition from the traditional model of electric-utility regulation to a competitive model. But which state has made the most progress to date? How does Texas' progress compare with that of other states? And how much progress has the nation as a whole made toward the goal of electric competition?

The Center for the Advancement of Energy Markets (www.caem.org) has developed the Retail Energy Deregulation Index 2000 (RED Index) to help Americans understand where each state is today along the road to restructuring.

The RED Index is a measure of the progress a state has made in moving from the monopoly model of utility regulation to the competitive model. A RED Index score of 0 represents the traditional monopoly model; a score of 100 represents complete and effective implementation of the policies that the Center believes are the necessary foundation of successful competition.

At this early stage of transition, six states have already built a foundation that achieves a score of 50 or more. Pennsylvania and New York are practically tied

for top ranking, at scores of 59 and 58 respectively.

But, according to the index, "the biggest surprises may be California and Texas. California, the pioneer in electric-utility restructuring and the state that has expended the most effort toward that end, scores only a 34, and ties with two other states for eleventh place. Texas, a virtual newcomer to restructuring, seems to have learned lessons from the early adopters and scores a robust 45, ranking seventh overall and leading the southern states."

The RED Index national average was only 18 — clear evidence, says Center President Ken Malloy, that "while there's much activity, the country still has a long way to go before we can conclude that the competitive model has been fully embraced."

The Center for the Advancement of Energy Markets is an independent, nonprofit think-tank whose mission is to promote an effective transition from the monopoly model of electric regulation to the competitive model. For more information about the RED Index, visit www.caem.org/red_index_es.htm#Ranking.

RED Index for the Top 25 U.S. Jurisdictions

RANK	STATE	TOTAL SCORE
1	Pennsylvania	59
2	New York	58
3	Nevada	52
4	Maryland	51
5	Maine	50
5	Massachusetts	50
7	Montana	45
7	Texas	45
9	New Jersey	42
10	Vermont	36
11	California	34
11	Connecticut	34
11	Delaware	34
14	Arkansas	31
14	New Mexico	31
16	Illinois	29
17	Arizona	26
17	Rhode Island	26
19	New Hampshire	25
20	Oregon	24
21	Ohio	12
22	Kentucky	10
22	South Carolina	10
24	District of Columbia	8
24	Georgia	8
24	Oklahoma	8

PUC activities

Public Utility Commission activities related to the electric-industry restructuring process:

Energy-efficiency programs

Recently, the PUC adopted the energy-efficiency rules for electric competition, which require electric companies to expand the variety of incentives offered through independent energy-efficiency providers. Utilities will develop standard-offer programs to install energy-efficiency services; independent providers will deliver such services to customers. The new rules include several consumer-protection provisions, including a three-day "cooling off" period within which a contract may be cancelled, clear disclosure of costs, work activities and completion dates, and a requirement for electric companies to have proper liability insurance to cover any property damage.

Pilot program

The PUC's Negotiated Rulemaking Committee, charged with writing the rules for Texas' competition pilot program, recently held its first meeting. The "Neg-Reg" Committee discussed issues that the panel should address with its rulemaking, including goals, scope and size of the pilot program, uniformity among programs statewide, appropriate selection and registration of program participants, and evaluation of the program.

Certification of REPs and registration of gencos/aggregators

The PUC has decided to split its certification/registration rulemaking into three separate rulemakings: certification of retail electric providers (REPs); registration of power generation companies (gencos); and registration of aggregators. The PUC recently voted to publish its proposed rules for registering gencos and aggregators, as well as the Commission's questions about who aggregators are and aggregation activities in other states. Comments on the rules must be submitted by April 7.