

TEXAS COMPETITION COUNTDOWN

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Implementation of the 1999 Texas Electric Choice Act



Building new transmission lines can be a tricky business

Thanks to Texas' booming economy, the demand for electricity continues to grow. And because Texas' demand for electricity is expected to increase 3.6 percent per year, we will need to construct more transmission lines — lines that run from power plants to distribution substations — to deliver power across the state. This will help ensure the reliable delivery of power to homes and businesses.

For roughly 85 percent of the state, transmission constraints are identified by the Electric Reliability Council of Texas (ERCOT), which generally determines the two points between which power needs to move. Once Point A and Point B are determined, the transmission utility owning the wires usually hires a consultant who prepares a routing study and environmental assessment to help select the preferred route between Point A and Point B. The routing study considers alternate routes for the



line, while taking into account the potential impact of a new transmission line in terms of the public, the environment and the cost.

Then, before a company may build the new transmission lines, the transmission company must file an application at the Public

Utility Commission (PUC), asking for a Certificate of Convenience and Necessity (CCN). The PUC decision is based on several factors:

- how well the existing service performs;
- whether additional service is — or will be — needed;
- the economic impact of new lines on area electric utilities;
- aesthetic factors, such as community concerns, historic lands, and the impact on park and recreational areas; and
- whether service will improve or prices will lower for area consumers.

As each transmission utility works to determine the best route to follow in building the line, it

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Q&A on Customer Protections

How will Texans learn about different Retail Electric Providers?

The Public Utility Commission (PUC) will run a consumer-education program designed to help customers understand how competition works and how it will affect them. In addition, Retail Electric Providers (REPs) will conduct their own advertising campaigns to attract customers.

What will happen if someone doesn't make any choice on January 1, 2002?

Even if a consumer pays no attention to electric restructuring, their service will not be interrupted. They will continue to receive electric service from the REP affiliated with their current provider, and most customers will receive the "price-to-beat" discount,

which will be 6 percent off of the rates in effect on December 31, 2001. Also, all customers will still be able to change REPs later, whether it is to lower their prices, improve service, or for any other reason.

What if the REP a consumer chooses goes out of business?

In addition to providing choice, the Texas Electric Choice Act includes provisions for the designation of a Provider of Last Resort (POLR). This provider will act as a default provider for a designated area, offering a standard service package, which must be approved by the PUC, to any retail customer who requests it. So no customer will be denied access to electricity.

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ASSOCIATION OF
ELECTRIC COMPANIES
OF TEXAS, INC.

American Electric Power ■ El Paso Electric Company
■ Entergy Texas ■ Reliant Energy Inc. ■ Texas-New
Mexico Power Company ■ TXU ■ Xcel Energy

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

Highlights from 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 base rates once competition begins

Once competition is underway, base rates 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.

Transmission lines

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must seek input from the public. So, before filing its application, an electric company publishes notice of the CCN application in the local newspapers, mails a notice to those who would be directly affected by the new line, and holds at least one public meeting to discuss the proposal.

The affected public may participate in this process by providing feedback, which may result in approval of the plan or the selection of an alternate transmission line location.

Therefore, public participa-

tion is a very important part of the information gathering process. It helps the citizens understand both the need for the project and the process of routing and approving the line. Equally important is that public participation provides the utility with information, which is incorporated into its study of the area.

Unfortunately, convincing a community to allow construction of new lines can be a hard sell. It's a catch-22: in order to serve new and existing communities, transmission lines have to be built

near somebody, but it isn't unusual to find that few people want them to be. So the CCN process is the best way to ensure that the utility, the PUC and public are each involved, informed and given the chance to participate in maintaining reliable electric service to their communities.

To learn where and when transmission lines will be built in Texas, check out the ERCOT Web site at www.ercot.com.

Q & A

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Once choice is in effect, will consumers be inundated with phone calls soliciting them to change power companies?

While receiving phone calls may be a good way to learn about other REPs, there will be ways in which consumers can set limits. The state will maintain a "do not call" database for the electric industry's consumers. For a one-time fee of up to \$5, customers can have their names added to the database, eliminating phone solicitations from REPs.

Will low-income families receive any assistance?

Low-income families will be eligible for reduced electric rates. Those families that qualify for certain state assistance programs can receive service at a 10 percent discount. This program is funded by the System Benefit Fund, which was established under the 1999 Texas Electric Choice Act.

Customers will have several options in 2002

When electric choice begins in Texas in 2002, most customers will have the option to decide for themselves who will provide their electricity — whether it's a Retail Electric Provider (REP) affiliated with their current provider, a new REP or an aggregator. But what do these choices mean?

OPTION 1:

Choosing not to choose

The Smith family has received reliable, affordable power from their current provider for years. Even after receiving flyers, watching TV and reading newspaper advertisements for other REPs, the Smiths decide there is no reason to switch to another electric company.

By choosing not to choose, the Smith family will continue to receive electric service from the REP affiliated with their current provider. Even better, they will receive electric service at the "price-to-beat", which, for most customers, means a 6 percent reduction of their current rates as of December 31, 2001.

Later, the Smith family decides to switch to a new REP by contacting that new REP and signing their contract. If they decide they want to switch back to their previous electric provider at any time, they may do so. And if it's within five years of the start of competition, the Smith family will still receive electric service at the "price-to-beat."

OPTION 2:

Choosing a new provider

The Anderson family reads the same newspaper advertisements, hears the same radio ads and sees the same commercials as the Smiths. Perhaps another REP offers better prices, more convenient service, more environmentally friendly power sources, or more service options that appeal to the Anderson family.

So, much like changing to another long-distance carrier, the Anderson family may switch its electric provider by contacting the new REP. And, like the Smiths, if the Anderson family becomes unhappy with its choice of REP, or discover another REP with a better offer, they can choose to switch again, even back to the REP affiliated with their original provider.

OPTION 3:

Choosing an aggregator

The Lopez family voluntarily decides to purchase its electric power through its homeowners' association, which has applied to be an aggregator (a buying group that negotiates electric service and price on behalf of its members).

The aggregator, which has to be approved by the Public Utility Commission, then bargains with a REP to determine its service, price and terms. Examples of aggregators include homeowners' associations, trade associations, and even retail outlets such as department stores that might decide to sell electricity.

If the Lopez family becomes unhappy with its choice, they can choose another aggregator or REP, or they can return to the REP affiliated with their current provider.

- **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.

For more information on competition in the electric industry, visit the AECT Web site or call (877) 677-AECT.

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