

# Competitive Current

*Implementation of the 1999 Texas Electric Choice Act*



**O**n January 1, 2002, 60 percent of Texas customers were given their first opportunity to choose a retail electric provider (REP). This opportunity to choose came after electric utilities in Texas had been fully regulated for close to a century. The Public Utility Commission of Texas (PUCT), the Electric Reliability Council of Texas (ERCOT), electric companies and other stakeholders worked hard to implement sound legislation into effective retail electric choice that, despite transitional hiccups, has been largely successful.

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## HUNDREDS OF MILLIONS IN SAVINGS

The Perryman Group, a leading Economic analysis firm, notes:

**The total residential impacts from cost savings** (excluding direct fuel costs and surcharge savings of \$677 million) include:

**\$603.8** million in annual Total Expenditures,

**\$289.9** million in annual Gross State Product,

**\$179.1** million in annual Personal Income,

**\$162.8** million in annual Retail Sales, and

**4,176** Permanent Jobs.

**In the small commercial customer category, the impact of cost savings includes:**

**\$419.6** million in annual Total Expenditures,

**\$215.4** million in annual Gross State Product,

**\$128.8** million in annual Personal Income,

**\$86.7** million in annual Retail Sales, and

**2,708** Permanent Jobs.

As Texas' competitive electric market grows, 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

American Electric Power • CenterPoint Energy  
 El Paso Electric Company • Entergy Texas  
 Reliant Energy • Texas-New Mexico Power Company  
 TXU • Xcel Energy

## STATE NEWS

*From the Capitol*



On December 12, the Legislative Oversight Committee on Electric Utility Restructuring met to discuss the status of Texas' electric market. Stakeholders, including the Texas Association of School Boards and the Texas Restaurant Association, discussed the savings their members had received as a result of electric competition. Also, a panel of consumer advocates discussed some of the challenges ahead for electric competition, including ensuring that Texans continue to save money and are not subject to slamming and other illegal marketing activities.

## From the PUCT

### Scope of Competition Report

The PUCT has posted its draft report to the 78th Texas legislature on the scope of electric competition. The report includes sections on Texas' market structure, actions taken by the PUCT from 2001 to 2003, the effects of competition on rates and service and emerging issues. To view the report, visit <http://www.puc.state.tx.us/electric/projects/25645/25645.cfm>.

### Reserve Margins

The PUCT has opened a rulemaking on establishing required reserve margins for the ERCOT market. Both the PUCT and ERCOT recommend a margin of 12.5 percent. Currently, Texas' reserve margin is over 20 percent.

### System Benefit Fund

To better ensure that most eligible customers are signed up for the low-income discount, the PUCT is working with retail electric providers to implement procedures for signing up customers through the LITE-UP program.

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When considering the success of Texas' competitive electric market, there are three questions:

**Are customers seeing better prices under electric competition?**

**Do customers have real choices among REPs?**

**Has electricity remained ample and reliable?**

Thus far, the answer to all three is "Yes."

### *Customers have better prices*

According to the PUCT, residential customers saved over \$900 million dollars off their 2002 electric bills compared to those in 2001. This includes customers who did not switch to a new REP; these customers received the "price-to-beat," a 6 percent discount off their base electric rates, adjusted for changes in fuel costs. Further, with lower natural gas costs compared to 2001 and the expiration of tariffs and other vestiges of regulation, electric bills were substantially lower.

Based on data from the PUCT, the average residential customer saved about \$200 off their 2002 electric bills compared to 2001. If those same customers had switched to the lowest available offer from a competitive REP, they could have saved up to \$80 more, depending on their part of the state.

Plus, cities, businesses, school districts and other larger customers have been able to negotiate better electric prices with the REP of their choice. From Edinburg to Nacogdoches, cities have signed contracts that saved hundreds of thousands of dollars.

### *Real choices*

In all eligible parts of the state, residential customers have multiple REPs from which to choose, as do commercial and industrial customers. In Houston and Dallas, for example, residents can receive their electricity from any of 10 REPs, each of which offer different prices and services. Whether customers want a long-term, fixed-rate contract or want to buy electricity generated from renewable sources, they can find a REP to meet their needs.

As Texas' electric market continues to grow, new companies may enter the market and develop innovative service options to attract customers.

### *Continued reliability*

The ERCOT electric grid continues to have abundant electricity, with a reserve margin of over 20 percent. This means that on the hottest day of the year, when everyone's air conditioners are running, there is still an estimated 20 percent surplus of available electricity.

The PUCT and ERCOT are continuing to study transmission issues and construction of new transmission lines is under way where needed to relieve constraints and ensure continued reliability of electric service.

### *A twelve-year plan*

The electric market in Texas is continually evolving. The joint House-Senate Legislative Oversight Committee on Electric Utility Restructuring is continuing to monitor the electric market, as is the PUCT.

Texas' transition to a competitive retail electric market began in 1995, with the establishment of a competitive wholesale market. The price-to-beat will continue until 2007, meaning Texas' transition will take a total of 12 years. By proceeding prudently, Texas can continue to ensure a successful market for all Texans.

# Texas & the United Kingdom:



## Similarities and Differences

In recent months, several companies have been unable to maintain profitability in European electric markets. When legislators and other stakeholders began restructuring Texas' electric markets—starting with wholesale competition in 1995, and continuing with passage of the Texas Electric Choice Act in 1999—the UK's market was studied closely. The Texas and UK markets have similarities in their structure. However, government intervention in the wholesale market of the UK has brought their restructuring efforts onto shaky ground.

After the UK began allowing generators to enter bilateral contracts with retail electric providers, wholesale prices fell as much as 40 percent. They've also encouraged the construction of new power plants. Meanwhile, here in Texas, over 13,000 MW of new generation has been built since wholesale competition began.

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U.S. Government passes the Public Utility Regulatory Policy Act (PURPA) which allowed non-utility companies to operate power plants.	1978	Parliament passes the Electricity Act of 1983, which permitted independent power producers to construct, own and operate power plants.	1983
UK Electricity Act of 1989 restructures the electric industry and essentially opens the wholesale market to competition almost immediately.	1989	Retail competition is phased in as government-owned retailers are privatized. Transmission and distribution remain regulated.	1990 1995
Texas enacts a law to open up its market to wholesale competition.	MAY 1995	Texas Electric Choice Act enacted, beginning the transition to a competitive retail electric market. Transmission and distribution remain regulated.	MAY 1999
UK switches from a power pool market to one more dependent on bilateral contracts. Within one year, wholesale prices fall by 40 percent.	MAR 2001	Retail electric competition begins in Texas.	JAN 2002
UK Government loans British Energy Plc 650 million pounds (~\$1 billion) to keep it from bankruptcy. In response, several power producers, including TXU Europe and Powergen, begin to pull out of the UK market, citing improper price signals and subsequent inability to compete.	SEP 2002 OCT 2002		

### CONSUMERTIPS



The Environmental Protection Agency's Energy Star Program may be a good way to make your home more energy-efficient. Visit [www.energystar.gov](http://www.energystar.gov) for more information.

Are you eligible for a low-income discount? You may qualify if:

- your family income is at or below 125 percent of federal poverty levels;
- you receive food stamps, Medicaid, Aid for Families with Dependent Children (AFDC), or Supplemental Security Income (SSI).

To sign up, you can download a self-certification form at [www.puc.state.tx.us/ocp/lowIncasst.cfm](http://www.puc.state.tx.us/ocp/lowIncasst.cfm), or call the PUCT's hotline at 1-866-4-LITE-UP (1-866-454-8387).

### POWERQUOTES



“As we begin the second year of retail electric competition, I expect to see more customers enter the competitive market, more offers from retail electric providers and even more enthusiasm for the good thing we have going in Texas.”

*Rebecca Klein, Chairman  
 Public Utility Commission of Texas*

## ► Inside this issue:

- One Year of Competition
- Texas vs. the UK

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## Texas & the United Kingdom: Similarities and Differences

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### *The importance of price signals*

In the UK, however, when British Energy Plc found itself unable to make money selling wholesale power, the British government chose to bail the company out, providing 650 million pounds (~\$1 billion) to keep it from entering bankruptcy. In a fully competitive market, when wholesale prices begin to fall, market participants begin to limit the construction of new power plants—or even consider mothballing or retiring inefficient plants that are expensive to operate.

By providing these funds to British Energy, the British government essentially altered those price signals. Instead of allowing the market to respond, the UK decided to

subsidize the low wholesale electricity prices with government funds for one market participant.

As a result, other wholesale power providers have been unable to compete, and, with the action taken by the British government, it is unreasonable to expect that a market that will treat each company fairly will be allowed to grow. Thus, several companies have begun to sell assets in the UK and leave its market.

The Texas legislature, the Public Utility Commission of Texas and other stakeholders have helped maintain Texas' robust wholesale market by allowing it to evolve based on the economics of supply and demand. Texas can avoid similar problems by allowing market forces to determine the need for new power plants and other investments.

### Highlights from the 1999 Texas Electric Choice Act

- **The power to choose**  
Electric competition began on January 1, 2002, for most Texans 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, until competition began.

- **Six-percent reduction in base rates once competition begins**  
When competition started, base rates dropped by 6

percent for residential and small-commercial customers of investor-owned utilities. These rates will stay capped at that price for up to five years.

- **Cleaner air**  
Some power plants must reduce by 50 percent their nitrogen oxide emissions, a key contributor to ozone. Some coal plants must also reduce their sulfur dioxide emissions by 25 percent. These reductions are 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.
- **Continued reliable service**  
Working together with the

Independent System Operator, the regulated transmission and distribution utilities are responsible for ensuring the continued reliability of Texas' electricity system.

- **No "slamming," no "cramming"**  
The PUCT has developed customer safeguards against "slamming" (unauthorized switching of your electricity provider) and "cramming" (adding unauthorized charges to your electric bill). Customers who don't want electricity

provider telephone solicitations may also sign up with the PUCT on a "do not call" list at 1-866-896-6225.

- **Low-income assistance**  
In Texas' competitive market, low-income customers are receiving 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.

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