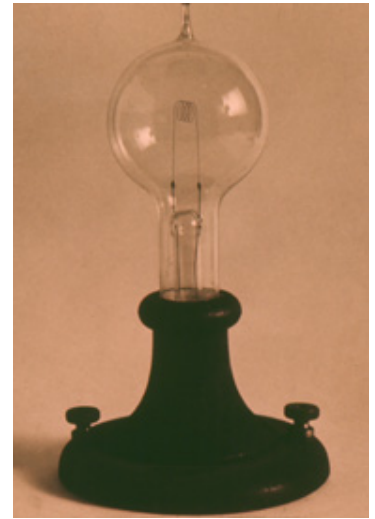


The History of Electric Competition

1975

- Inflation, construction costs and fuel costs drive electricity rates up.
- 64th Texas Legislature enacts Public Utility Regulatory Act (PURA) to implement state regulation of electric utility service and rates (Cities permitted to retain original jurisdiction).
 - Service area, transmission line and generating plant certification.
 - Rate regulation (based on cost of service plus reasonable return on investment).
 - Rates based on historical test year costs and original costs of infrastructure, less depreciation. – Service quality regulation.
 - Customer protection.



1976-1995

- 1978 U.S. Fuel Use Act required utilities to discontinue use of natural gas and encouraged the use of coal and nuclear for fuel.
- Inflation, volatile fuel costs and the need to add new generating capacity continue to increase electricity rates.
- Rate proceedings at PUC become increasingly adversarial.
 - Consumer groups concerned about frequency and amount of rate increases.
 - Utilities concerned about increasingly large PUC cost disallowances that are at odds with the regulatory compact and erode rates of return.
- Large customers tire of subsidizing other ratepayers seek opportunities to by-pass regulated rates and obtain choice of suppliers.
 - Cogeneration/self-generation.
 - Advocate wholesale competition and transmission open access.
 - Advocate “retail wheeling”.
- Natural gas was favored again when the 1978 U.S. Fuel Use Act was repealed in the 1990s.



Electric 101: A history of competition

Electric Competition was passed with bipartisan support

- Senate Bill 373, which opened the wholesale electricity market in Texas, passed in 1995 when the Democrats were the majority party in the House and Senate.
 - The Speaker of the House and the Lieutenant Governor were both Democrats, and the bill sponsors and authors were both Democrats.
- Senate Bill 7, which opened the competitive market, passed in 1999.
 - The Senate and the Lieutenant Governor were Republican, but the House was still majority Democrat. The House sponsor and author of the bill and the House Speaker in 1999 were both Democrats.
 - Senate Bill 7 passed the House with a vote of 144 Ayes and 4 Nays.
- It was a bipartisan measure: 74 of the Aye votes were from Democrats, while 68 were from Republicans.
 - The bill passed the Senate with a vote of 28 Ayes and 3 nays.

