

## CSHB 1535 by Frullo: Improving Efficiency and Supporting Investment in Non-ERCOT Areas

Investor-owned electric utilities located outside the ERCOT grid serve over 1 million customers in Texas, including several key national industries. Known as the “Non-ERCOTs,” these companies offer a vital service as basic as roads and water, but rely exclusively on private investment dollars. These traditionally regulated utilities still have the responsibility to ensure the lights come on when customers flip the switch.

### The Problem: The Current Ratemaking Process Stifles Investment in Critical Infrastructure

Despite Texas’ business-friendly environment, non-ERCOT utilities operate under an outdated regulatory model that produces “regulatory lag,” an extended time period between the date that infrastructure is placed in service and the date investors may start recovering their investment.

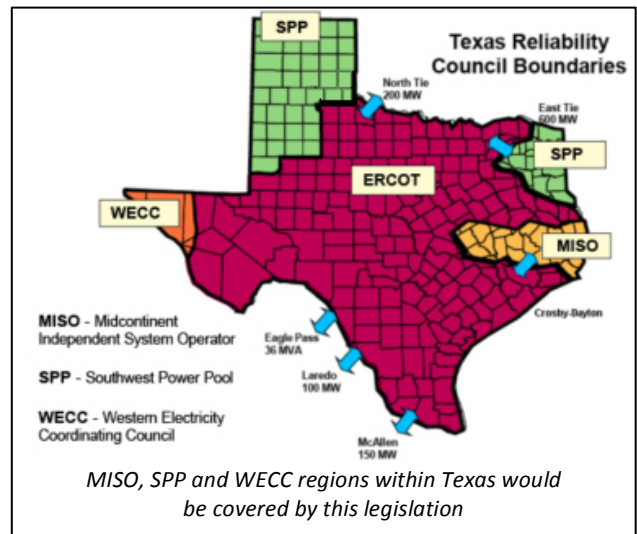
Regulatory lag hinders the flow of capital into these key strategic areas and undermines the non-ERCOT utilities’ ability to build needed infrastructure. Debt rating agencies have cited regulatory lag when assigning lower debt ratings to the four non-ERCOT utilities. Lower debt ratings threaten the utilities’ financial integrity and increase the cost of capital, which ultimately makes power more expensive for customers.

### The Solution: Modernized Ratemaking Will Benefit Customers While Supporting Critical Infrastructure Investment

**CSHB 1535** will better synchronize the timing of investment and cost recovery. The bill will not reduce PUC oversight or result in greater cost recovery, nor will it increase the long-term rates customers pay. Instead, CSHB 1535 will allow non-ERCOT utilities to make timely investments to meet demand, which supports economic development in non-ERCOT regions by providing the transmission, distribution and generation needed for growth.

**CSHB 1535** will benefit customers in non-ERCOT regions of Texas in several ways. The bill:

- Promotes a **safe, reliable electric grid**, which is the backbone of economic development
- Allows utilities to build infrastructure at the lowest possible capital cost, with better financing terms and fewer expensive rate cases — which means **customers will save in the long run** compared to the inefficient ratemaking system of today
- Helps utilities **compete for capital** with utilities in neighboring states, which have more efficient ratemaking processes
- Allows for **faster development of needed electric infrastructure** to help cities in non-ERCOT regions meet growing demand



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John W. Fainter, Jr. • President and CEO Association of Electric Companies of Texas, Inc.  
1005 Congress, Suite 600 • Austin, TX 78701 • phone 512-474-6725 • fax 512-474-9670 •

