

A Perspective on Texas' Restructuring Efforts

**NARUC Summer Committee Meetings
July 26, 2005**

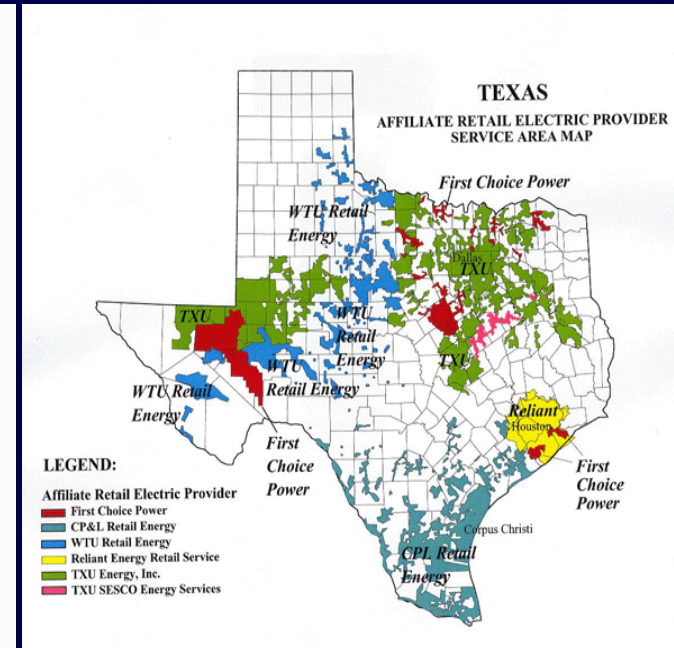
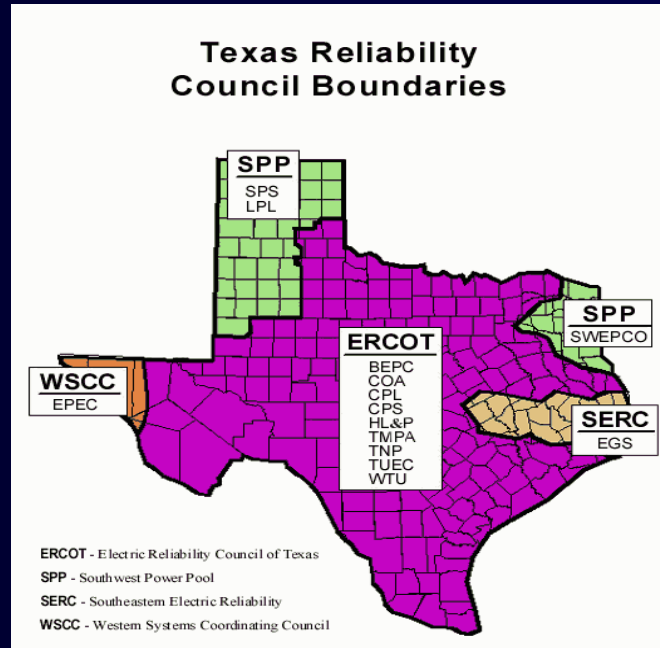
★ Structure

★ Metrics

★ Conclusions

Over the Last 9 or so Years, Change Has Been Constant...

- ★ SB 373 wholesale competition (1995)
- ★ SB 7 retail competition (1999)
- ★ Over 40 rulemakings and Protocol Development
- ★ Single Control Area – Summer 2001
- ★ Retail Pilot Project
- ★ Retail market opens – January 1, 2002



SB 7 Fundamentals Include...

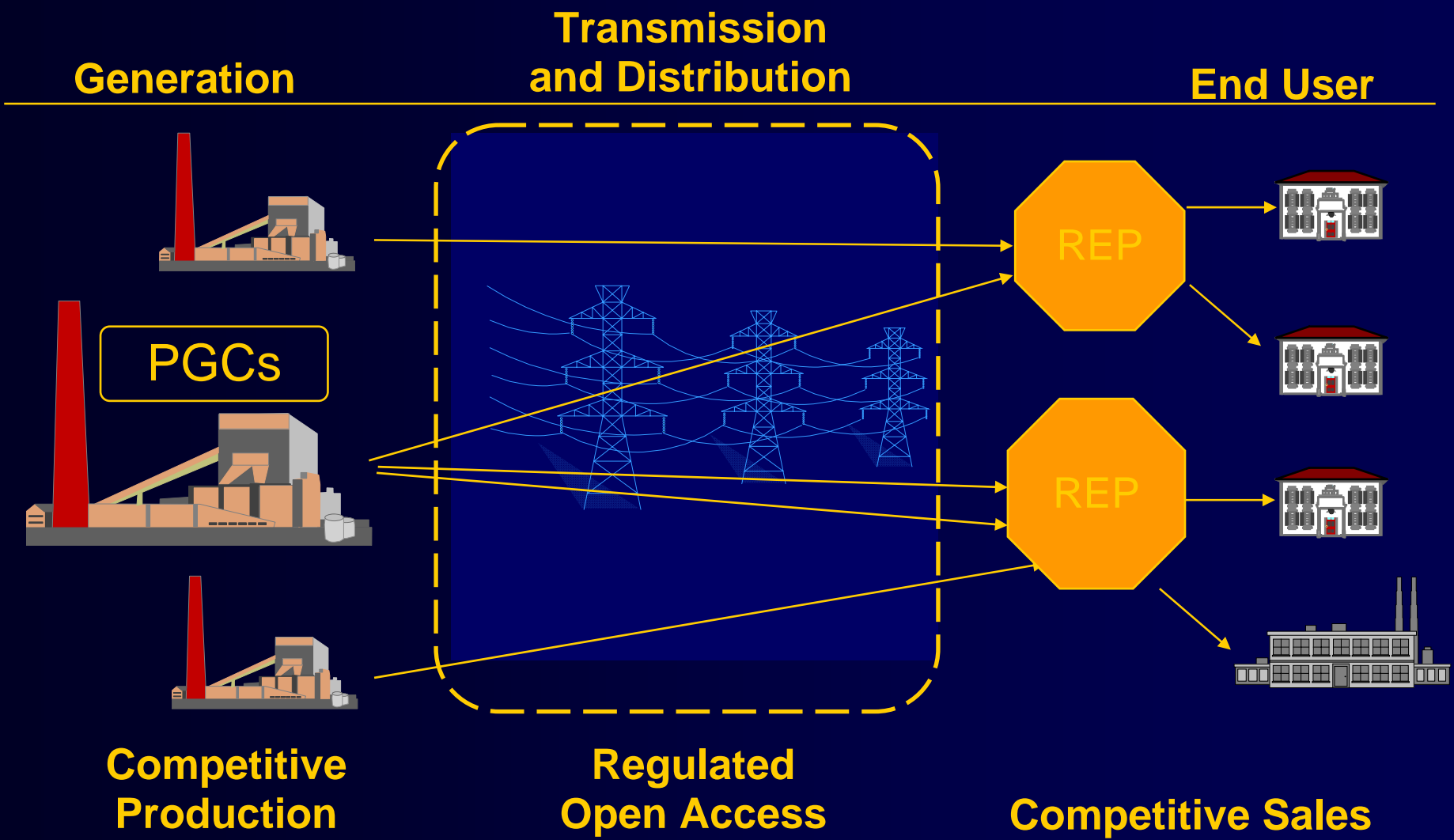
Wholesale

- ★ Single control area
- ★ RPS/Energy Efficiency and Environmental Clean-up
- ★ Stakeholders developed market protocols
- ★ All market entities participate
- ★ Bilateral market with ISO balancing and ancillary services markets
- ★ Portion of incumbent capacity output available at auction initially
- ★ Centralized settlement of market
- ★ Centralized customer registration

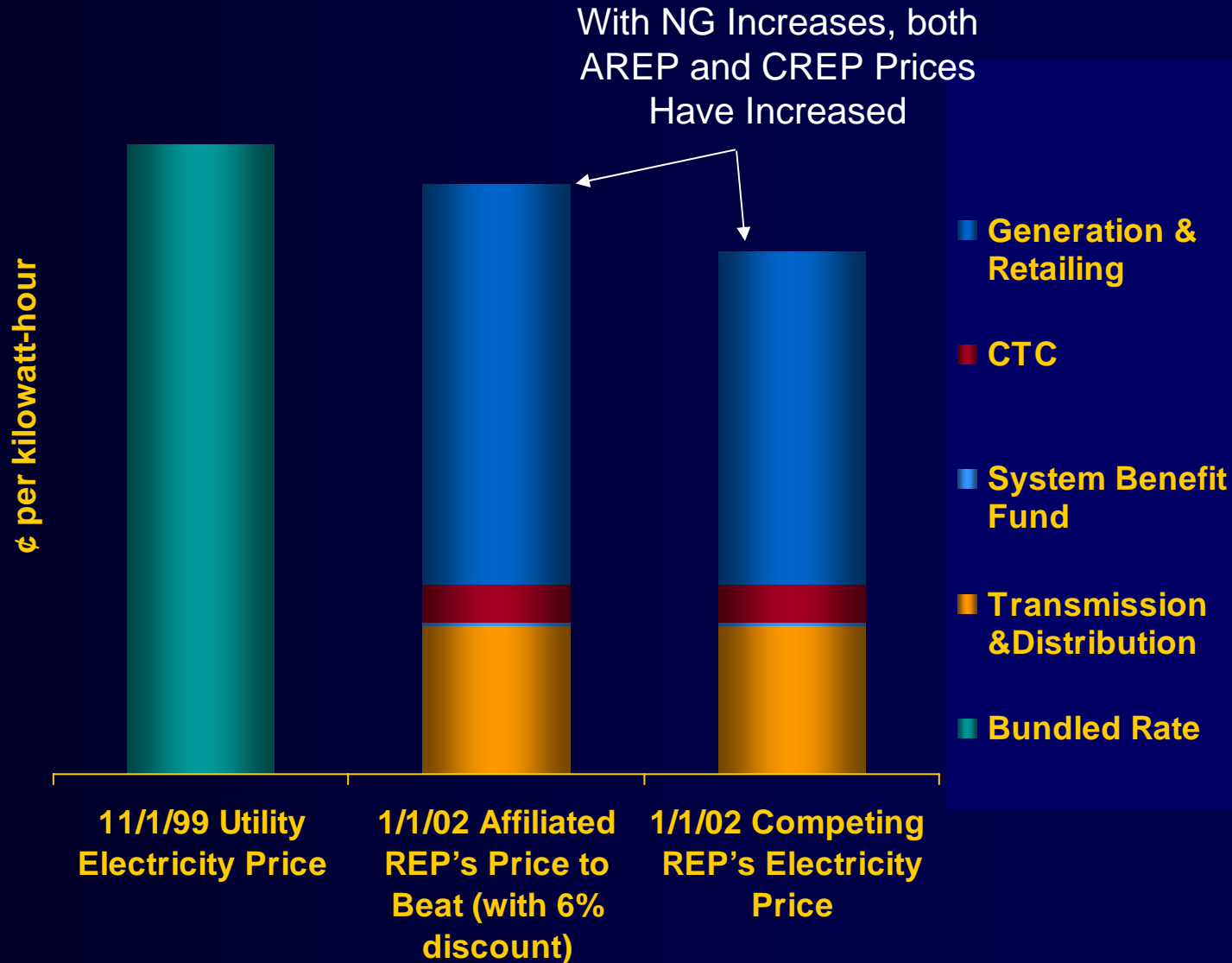
Retail

- ★ Wires companies' sole focus is reliable delivery
- ★ Retail customer served by competitive provider
- ★ Immediate market pricing to larger customers
- ★ Stranded cost as non-bypassable charge
- ★ New customer protection provisions
- ★ In traditional area, "affiliated" REP sells to small customers (<1mw) at Price-to-Beat (PTB)
 - PTB
 - Transitional mechanism
 - Floor and cap for "affiliate", first three years or loss of 40% of customers
 - Cap for affiliate until January 1st, 2007
 - Fuel/purchased energy adjustment feature

...Structurally Changing in This Fashion for IOU Areas Within ERCOT



Considerable Discussion Surrounds “Price to Beat” Effect on Customers



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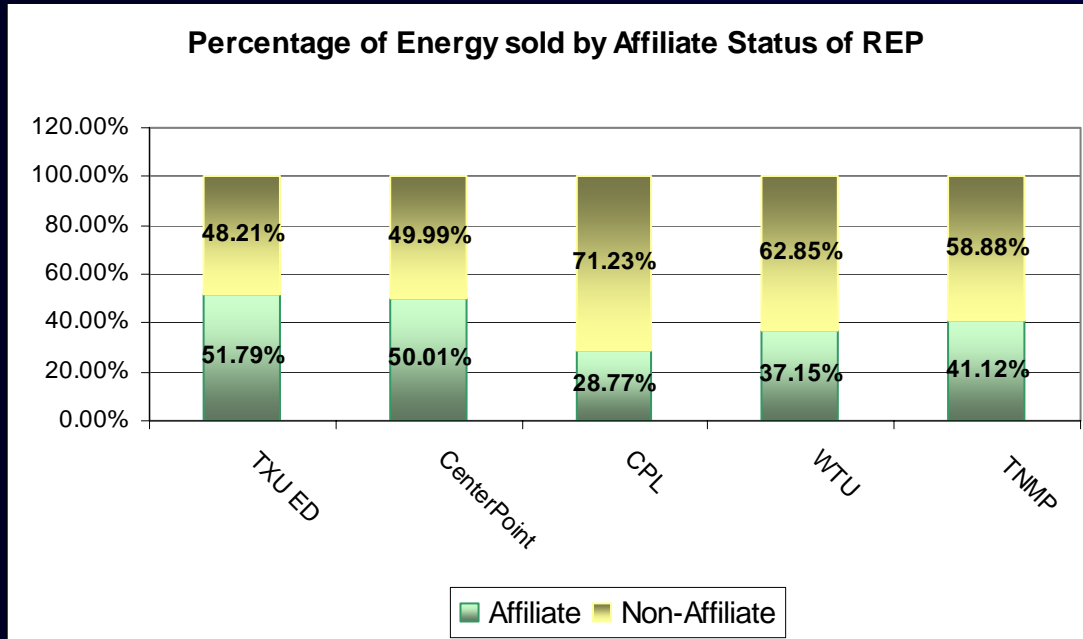
Retail Market Fundamentals

★ Texas retail market

- Opened January 1st 2002
- ERCOT Peak Load, 60,000 MW
 - 85% of Texas load within ERCOT
- Approximately 6.1 million customers open to competition day 1
 - About 3 million more able to Opt in (Munis/Co-ops)
 - 1st Opt-in Co-op, NEC
 - Range of market differentiation/evolving product offerings
 - Continue to see new entrants w/ relatively limited exit
- About 60 Retail Electric Providers currently active (About 85 certified)
- 67 wholesale providers
- Over 150 registered aggregators with varying levels of participation

Switching Activity

Load



ESID May, 2005

Large Non-Res:

- 70% ESID's

Small Non-Res:

- 28% ESID's

Residential:

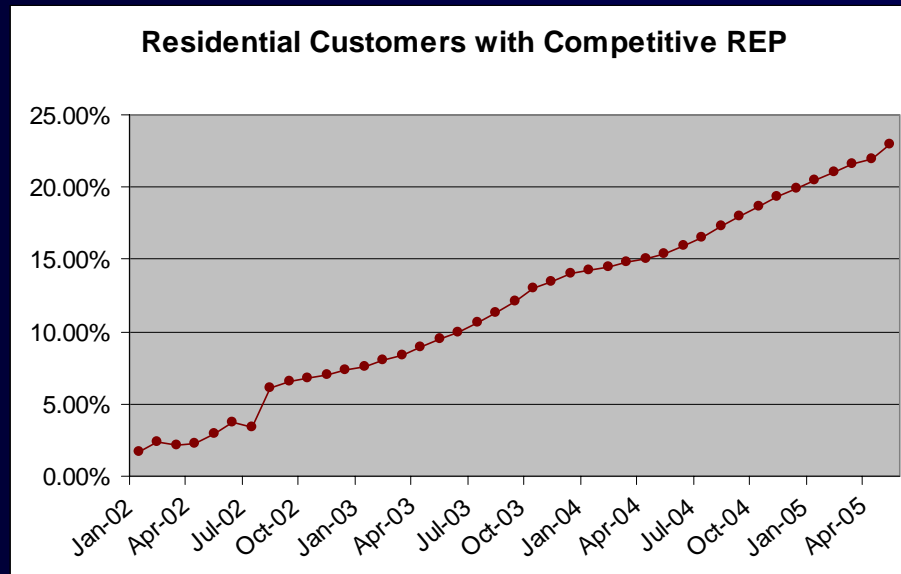
- 23% ESID's

- ❑ Past the 1,360,000 customer switch mark
- ❑ Over 50% of ERCOT competitive load now served by competitor
- ❑ In one area, 34% of residential load (30% of ESIDs) with C-REP
- ❑ 18 REPs with at least 500 residential customers

Switching Trends

	% of Load *		% of ESI IDs	
	at <u>05-31-05</u>	at <u>05-31-05</u>	at <u>05-31-05</u>	at <u>04-30-04</u>
Residential	29%	23%	23%	15%
Small Non-Residential	73%	28%	28%	19%
Large Non-Residential	72%	70%	70%	57%

☆ **Over thirteen million transactions (e.g. Move-in/out, drop to POLR etc.)**



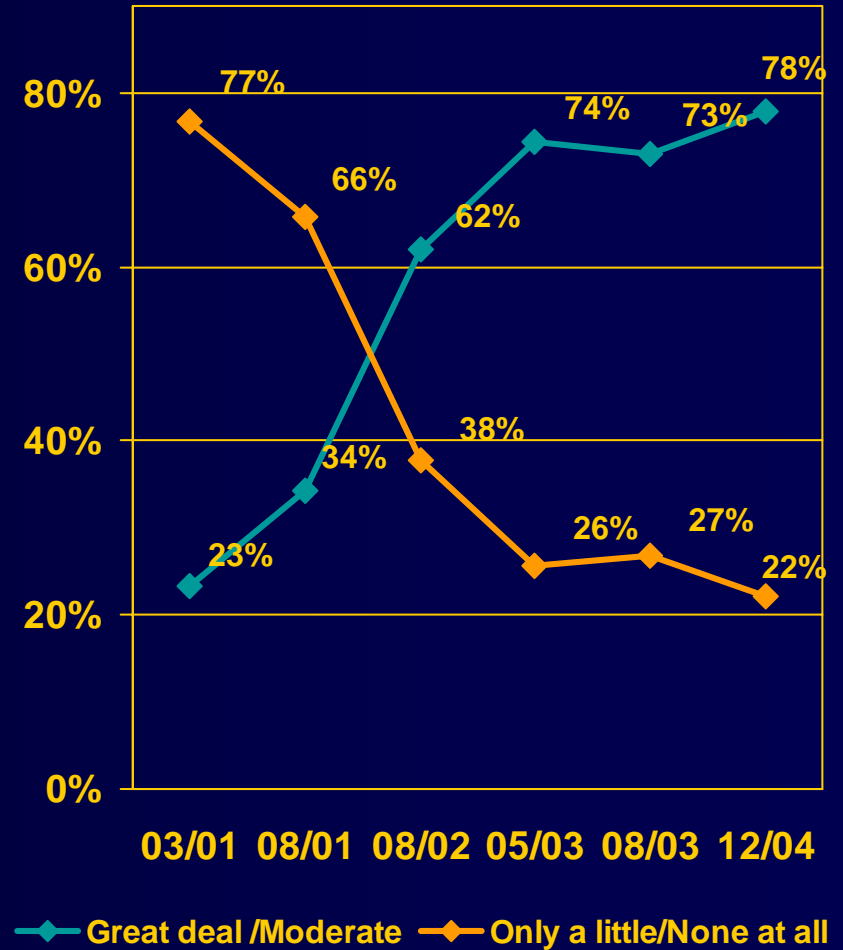
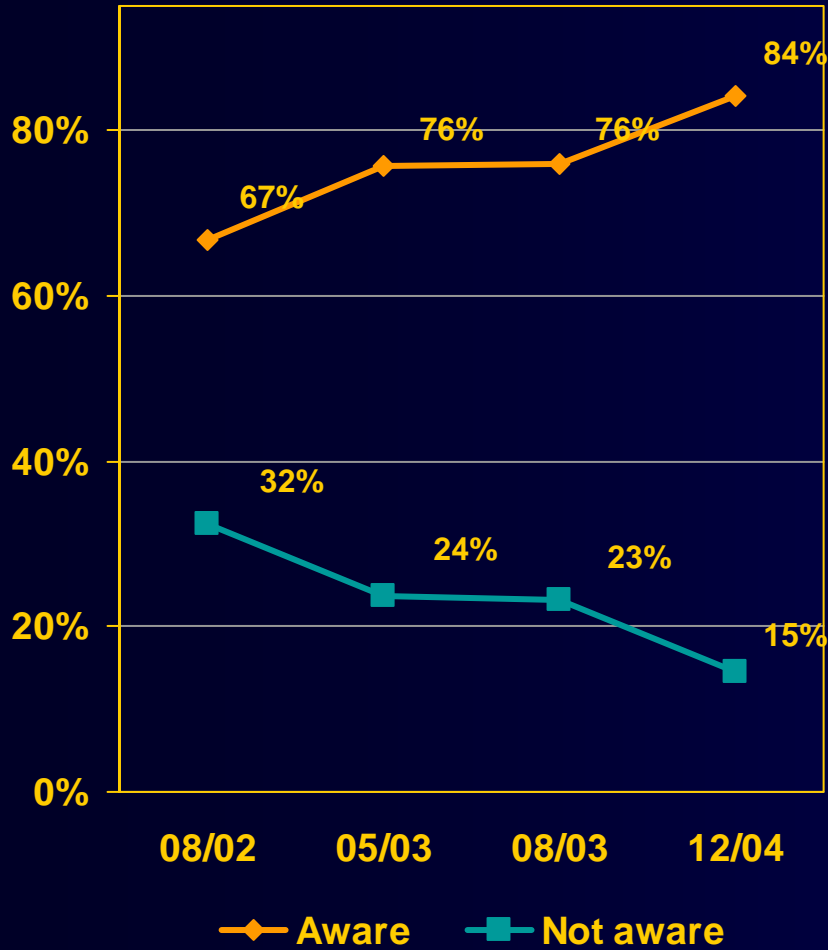
Residential Choices

REPS serving residential customers

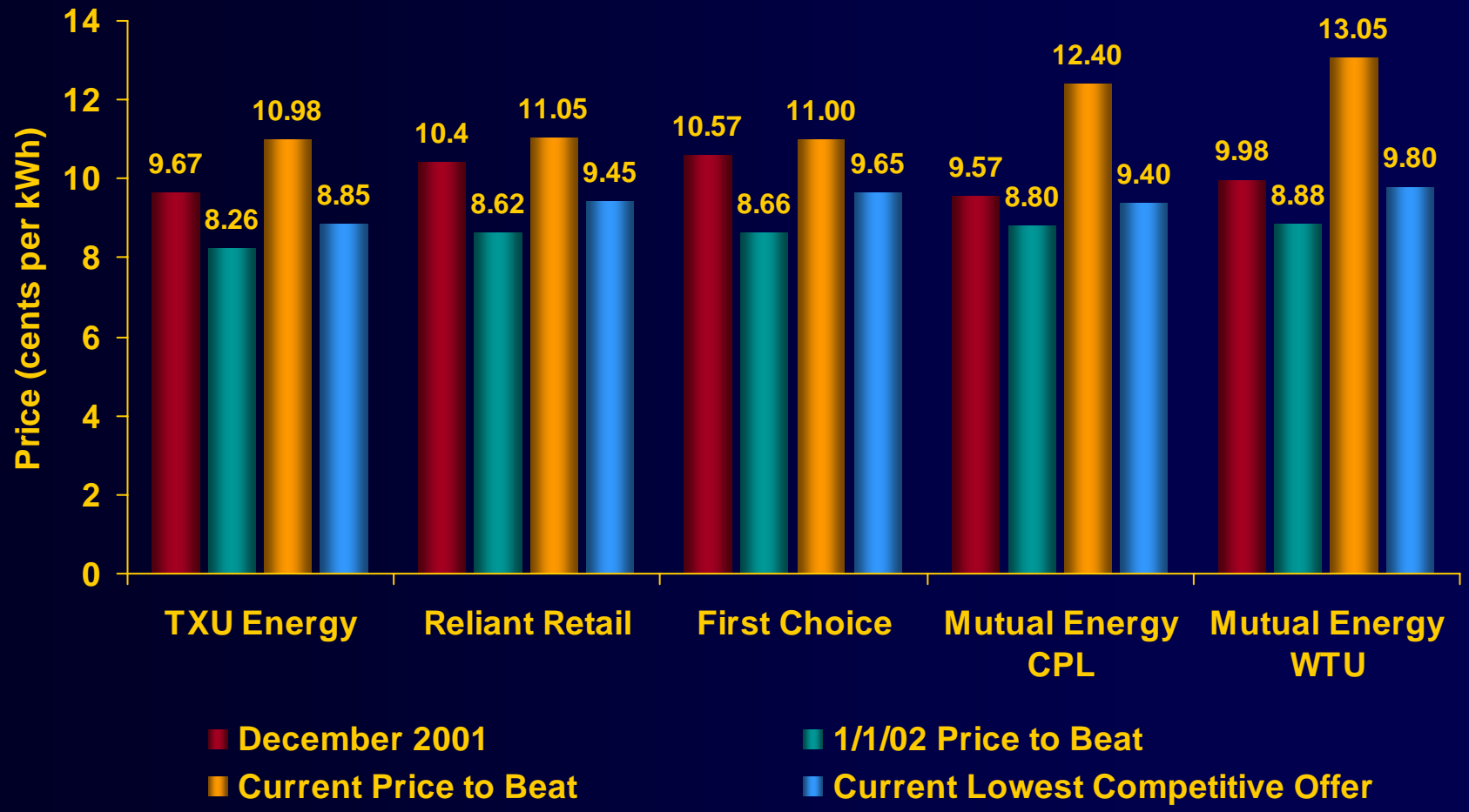
Utility	# of REPs (inc. AREP)	# of products (inc. PTB)	Ren/0 Emi Products
TXU Elec. Del. (DFW)	12	19	6
CenterPoint (Houston)	13	19	6
TNMP	10	19	6
CPL (Corpus Christi)	12	24	6
WTU (Abilene)	9	17	6

Source: Power to Choose

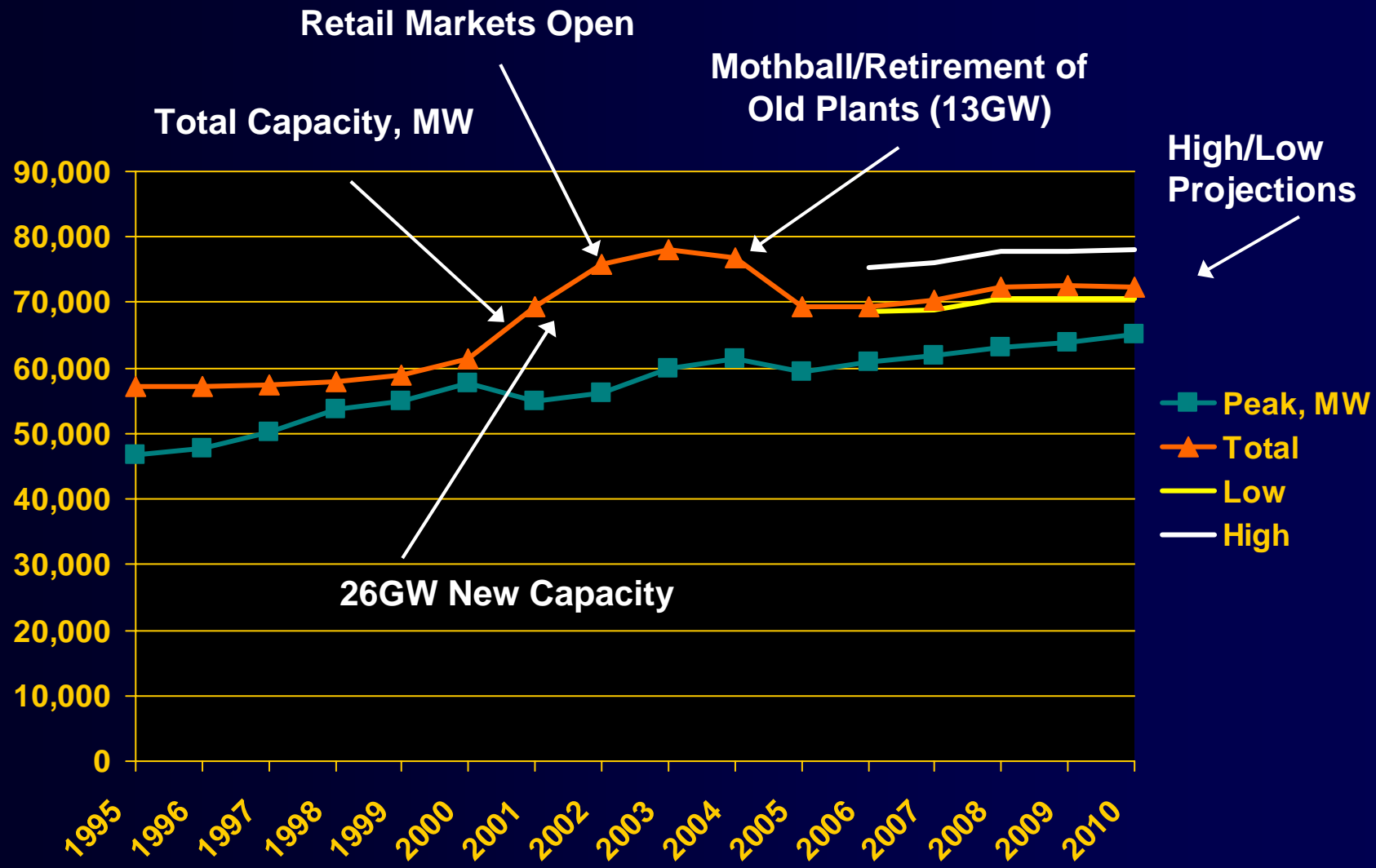
Customer Awareness



Price To Beat and Other Rates

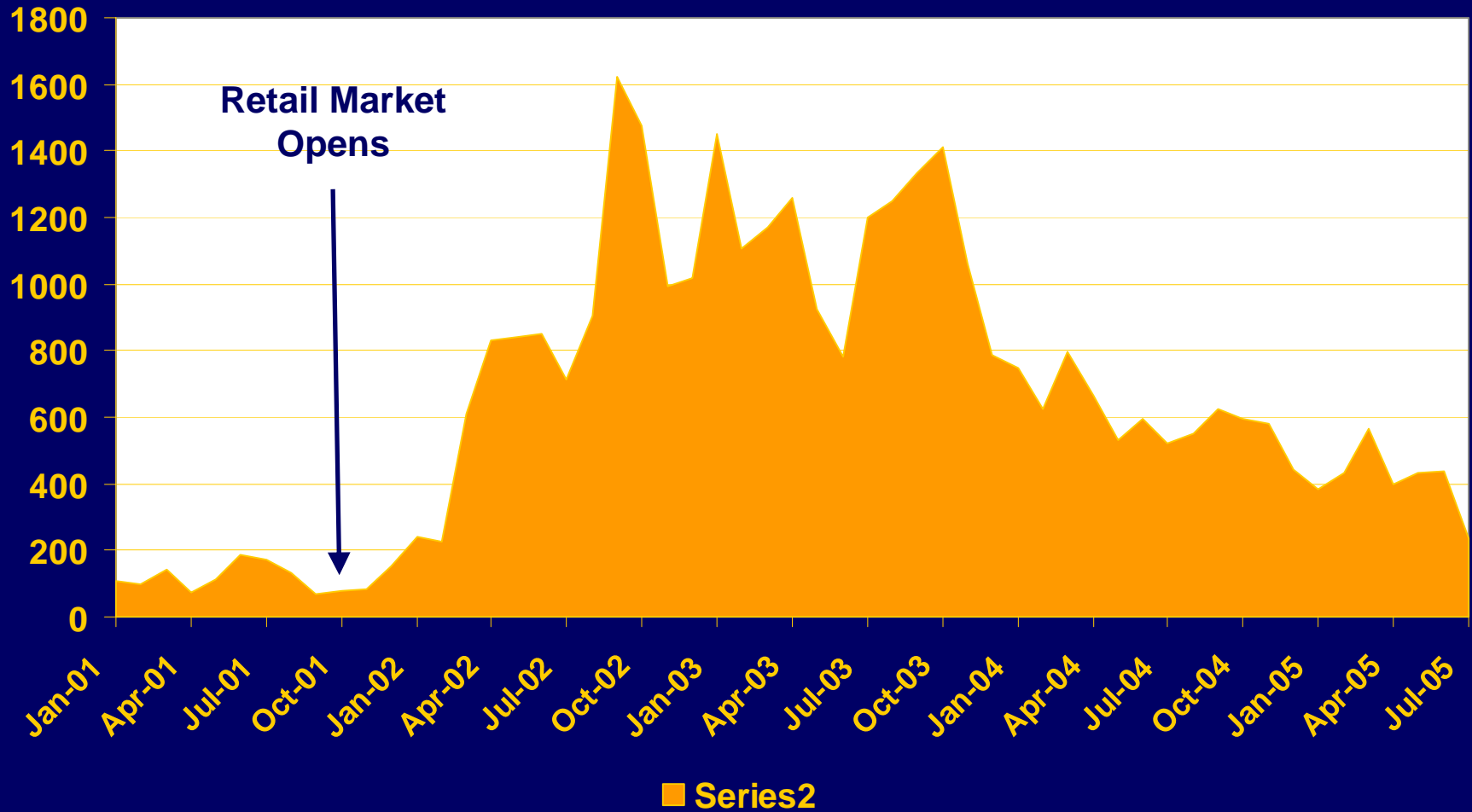


Reserve Margin Trends



Customer Complaint Trends

Total Complaints Investigated
January, 2000 - July, 2005



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3.5 Years Into the Change...

Pros:

- ★ **Competitive entry and many choices**
- ★ **Nascent product development**
- ★ **Aggressive acquisition efforts**
- ★ **Increasing customer understanding**
- ★ **Increasing numbers of customers actively making a choice**

Cons:

- ★ **Rates escalate during development (NG sets margin)**
- ★ **Sticky customers**
- ★ **Customer confusion not forestalled by choice campaign**
- ★ **Transaction management and unintended consequences are manageable, but troubling**
- ★ **Continued open questions to refine regulatory world**