
Perspectives on Texas' Efforts

Briefing

March 31, 2005

Section 1

A Year or So in Cartoon

Almost Two Years Ago, I Was Basking in the West Indies...



...I Was Interrupted By This Phone Call

**“Find A
Justice
of the
Peace.”**

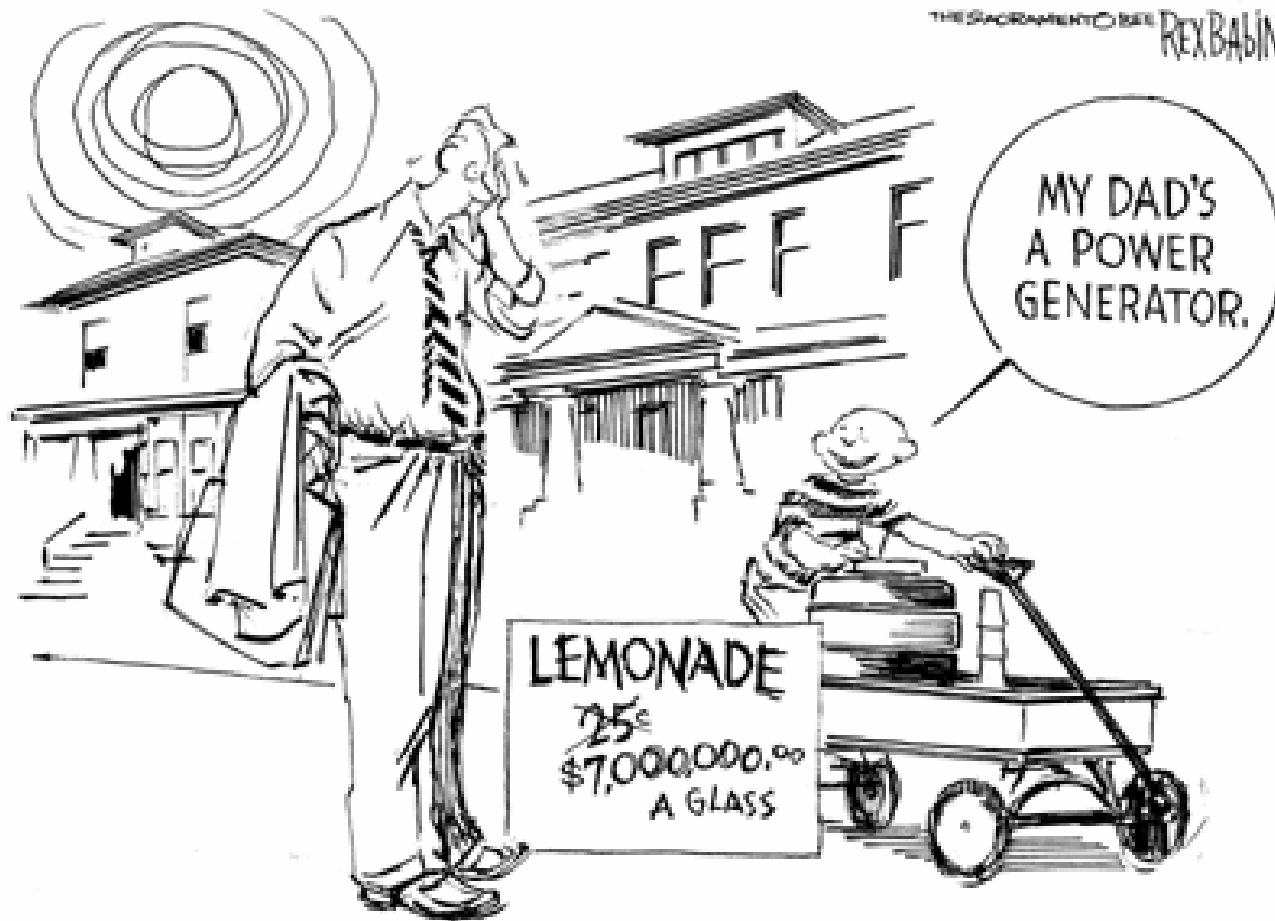
“Now.”



It Was A Rocky Time in the Electric Sector...



...On the Heels of the California Crisis



And, After the Big Northeast Blackout



Many Warned Me of the Perils Ahead...



...But Telling the Governor No, Well No



I Was Quickly Indoctrinated By PUC Personnel...



...But Adjusting to the Reading Has Not Been Easy



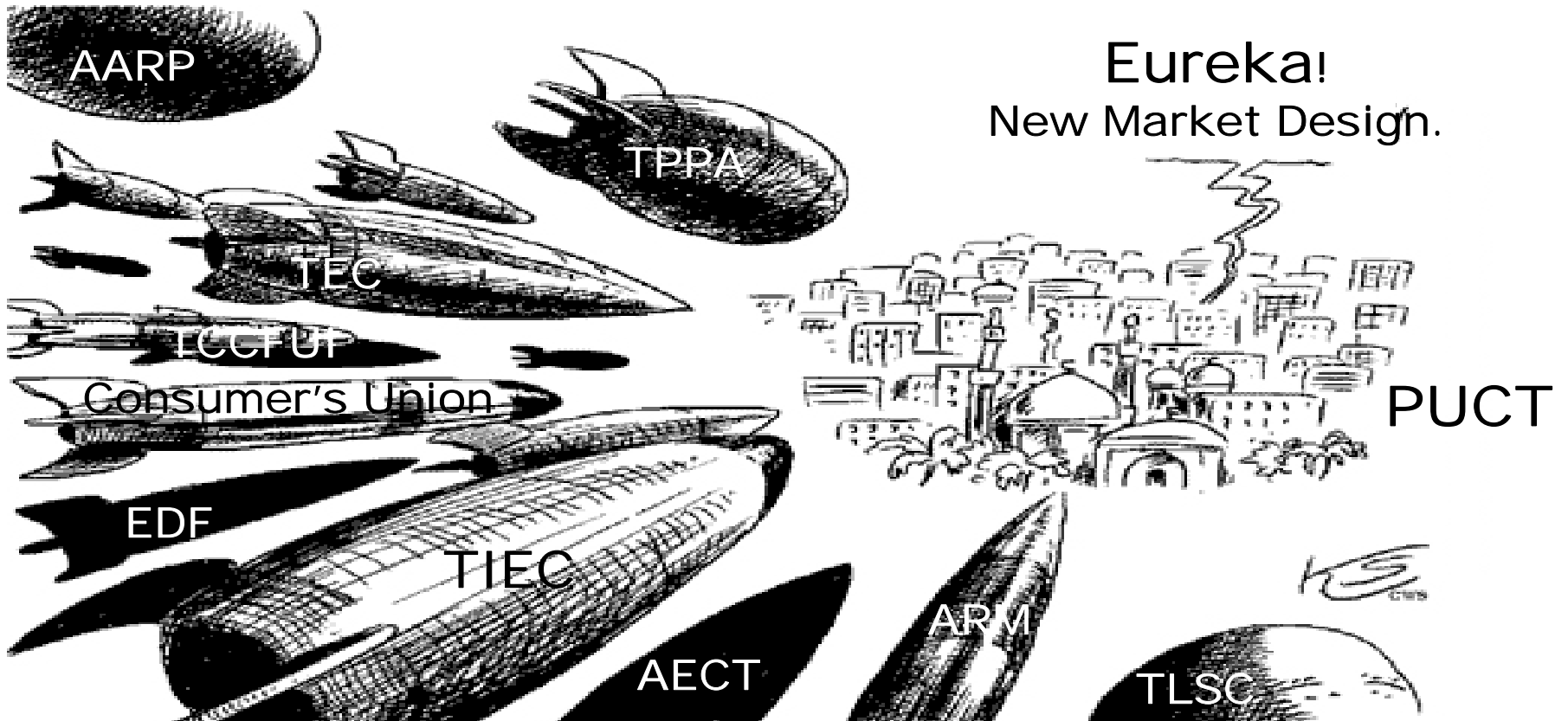
No...Just One Docket.

Open Meeting Materials?



Knowing That Critique Was Headed in My Direction...

STUTTMANN
DER TAGESSPIEGEL



... I Quickly Adjusted to My New PUC Protective Wardrobe



Monday



Tuesday



Wednesday



Thursday

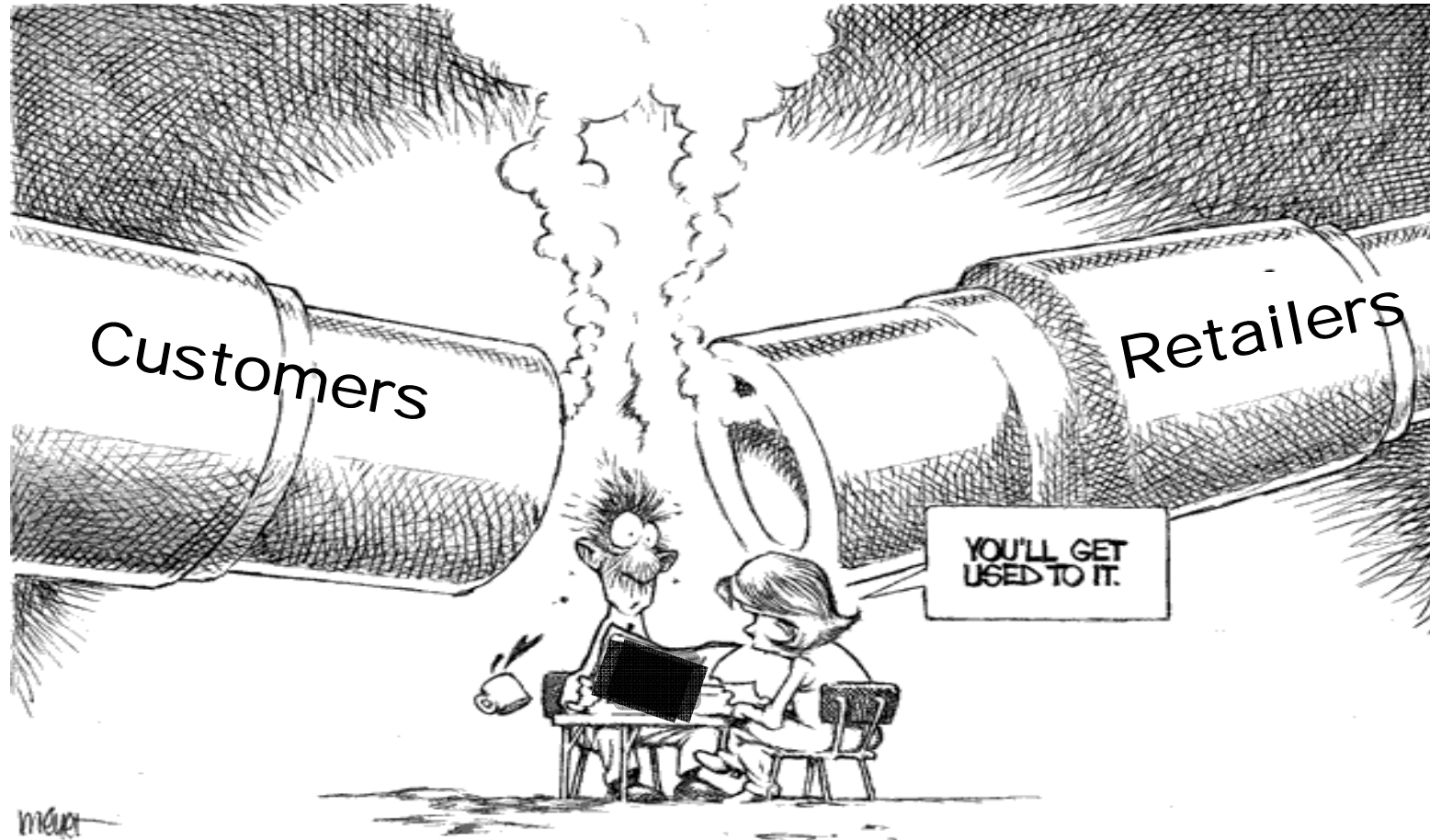


Friday

I Was “Invited” to be Chairman Last January



While My Colleague Was Very Reassuring...



...My Piloting Skills Were Largely Unknown



Industry May Tell You That Going to the PUC Feels Like This...



...But I'm Here to Tell You That, From My Perspective, it Mostly Feels Like This



I realized at that very moment that my chainsaw juggling days were over

...Though Some Days Have Felt Like This



**All Those In Favor of Blaming The
Chairman For Our Crisis, Raise Your Hands**

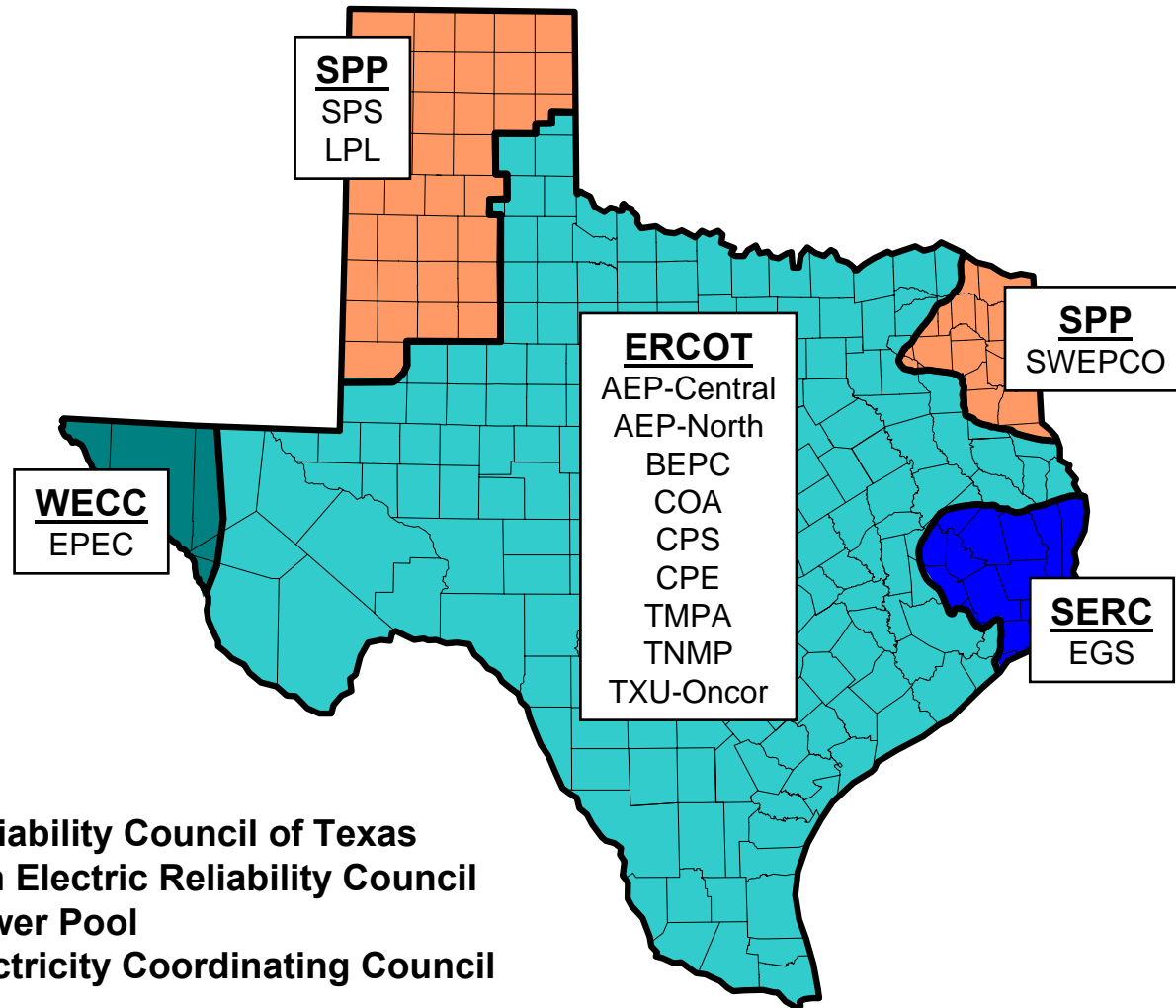
Competitive Markets Are Quite a Ride!!!



Section 2

Electric Market Perspectives

Texas Electric Area Map



ERCOT - Electric Reliability Council of Texas
SERC - Southeastern Electric Reliability Council
SPP - Southwest Power Pool
WECC - Western Electricity Coordinating Council

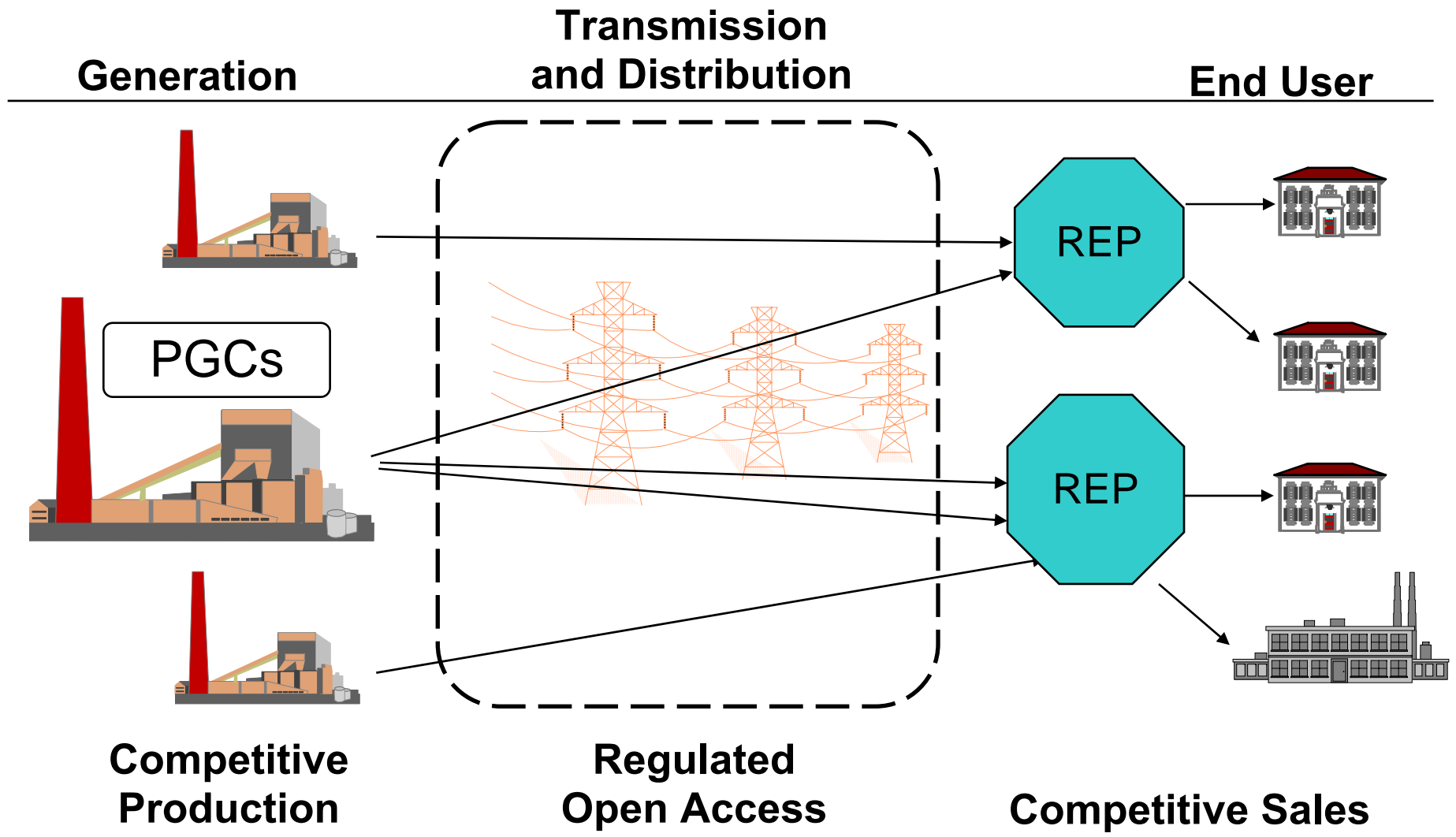
Texas Electricity Market

- 85% of load in Electric Reliability Council of Texas
 - Approximately 6 million customers open to competition
 - Peak demand of approximately 60,000 MW
 - Installed generation capacity of 82,185 (8386 mothballed) MW
- 15% of load outside of ERCOT distributed in the North, West, Northeast and Southeast – still vertically integrated

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

- **SB 373 wholesale competition (1995)**
- **SB 7 mandates customer choice (1999)**
- **Multiple major rulemakings and protocol development to implement**
- **ERCOT implements single control area**
- **Pilot retail choice project – summer 2001**
- **Retail market opens – January 1, 2002**
 - **Etc. e.g. (several hundred PRRs)**

...As a Reminder, the Biggest Change



Retail Electric Competition

- **Texas retail market has now been open for almost 3 ½ years**
- **55 Retail Electric Providers currently active (About 85 certified)**
 - **19 REPs serving at least 500 residential customers**
 - **Range of market differentiation/evolving product offerings**
 - **Continue to see new entrants w/ limited exit (e.g Florida Power and Light, ConED)**

Meaningful Residential Choices...

Residential customers have meaningful choices with multiple REPs/products in all areas.

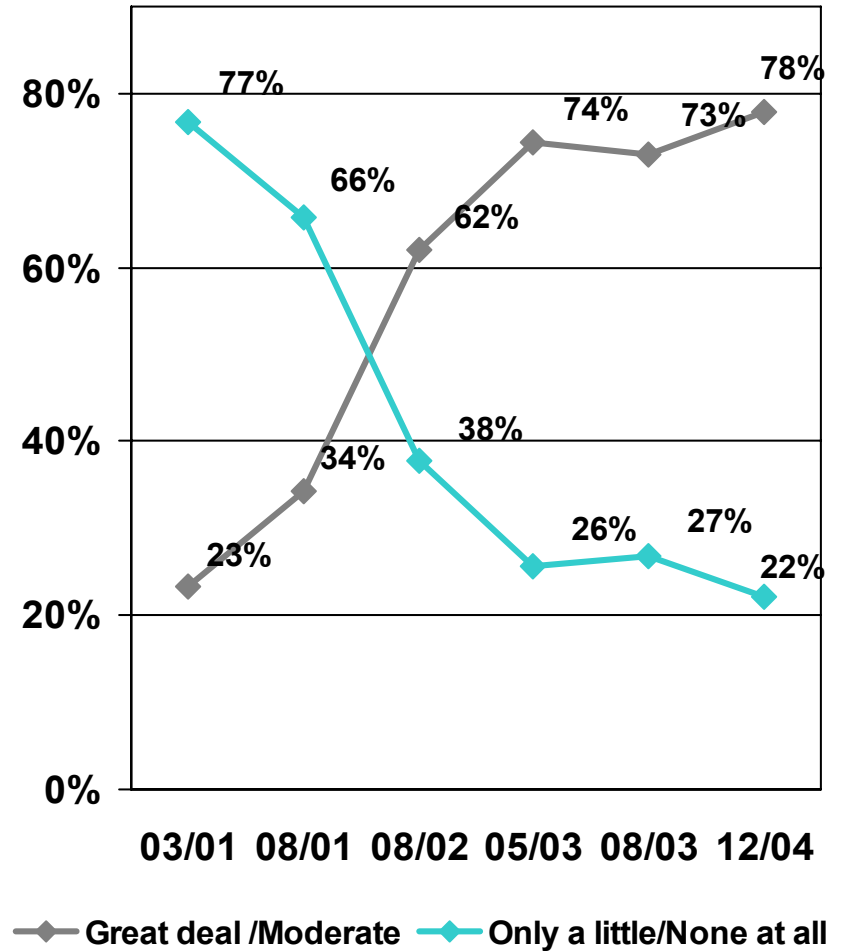
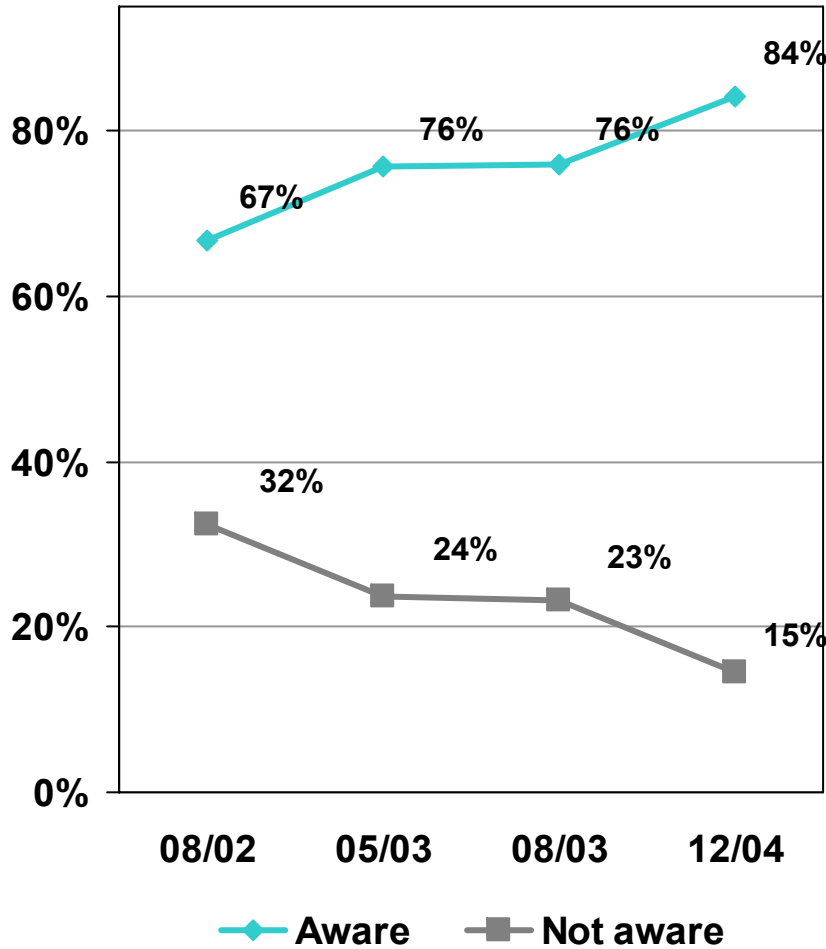
Utility	# of REPs (inc. AREP)	# of products (inc. PTB)	Renewable Products
TXU Elec. Del. (DFW)	12	14	4
CenterPoint (Houston)	11	12	3
TNMP	8	11	4
CPL (Corpus Christi)	10	13	4
WTU (Abilene)	7	9	0

Source: PUC 2004 December Retail Report Card

...That Have Numerically Increased Over Time

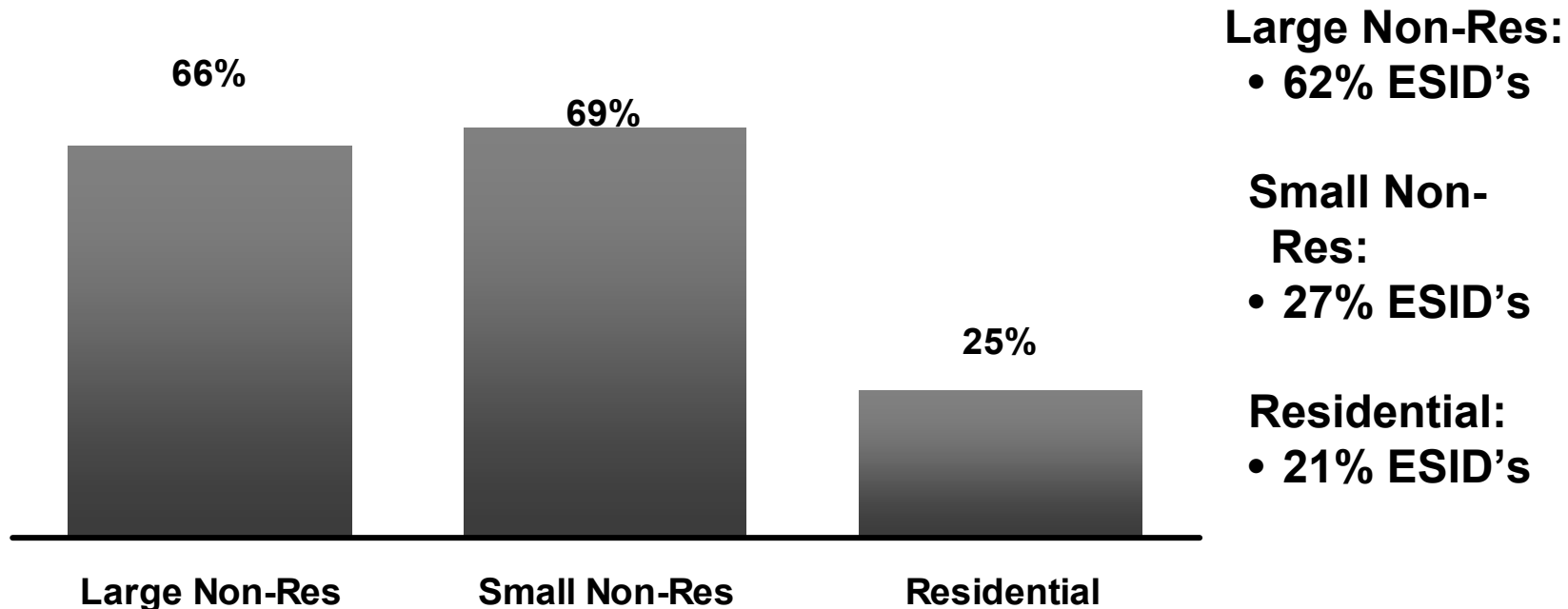
Area	# of active REPs June 2002	# of all Products June 2002	# of active REPs Oct. 2004	# of all Products Oct. 2004
TXU Electric Delivery (DFW)	9	10	12	14
CenterPoint (Houston)	9	10	11	12
AEP-Central (Rio Grande Valley)	5	6	10	13
TNMP (South/Central)	5	6	8	11
AEP-North (West)	3	3	7	9

Increasing Customer Awareness...



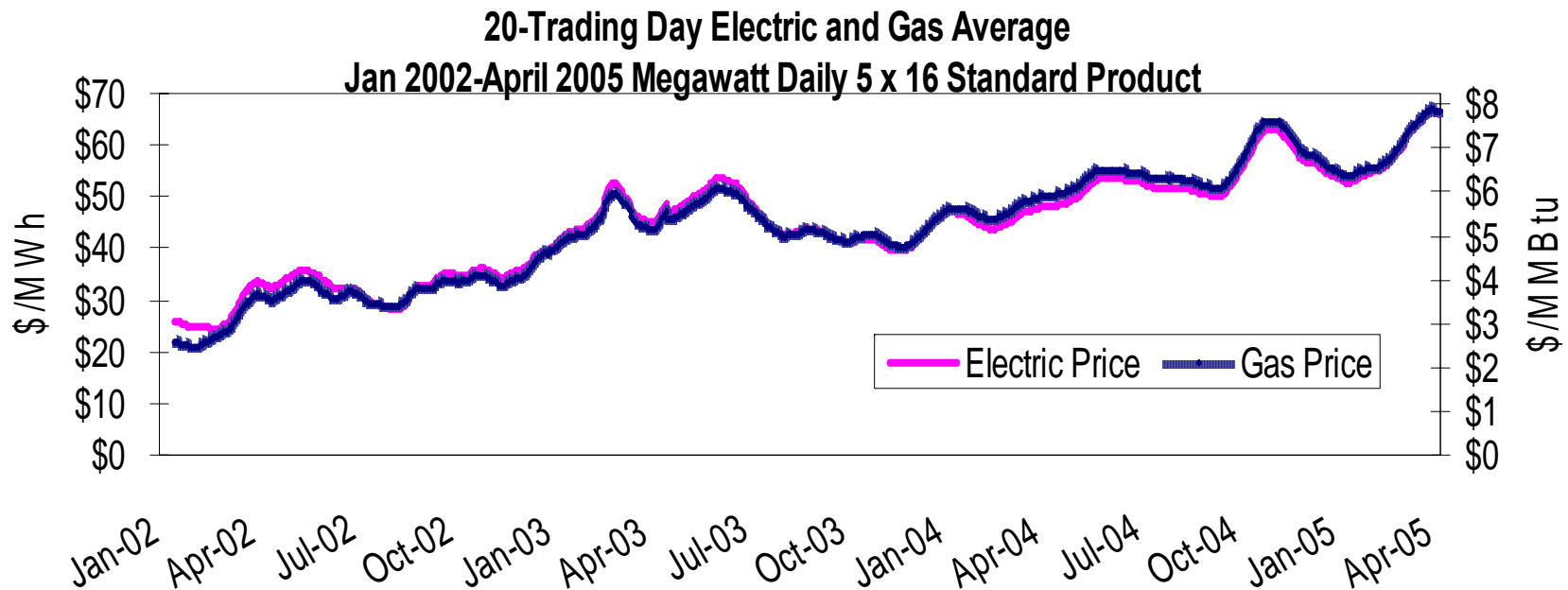
...Leading to Continued Migration to Non-Affiliated REPs

January 05 - Load

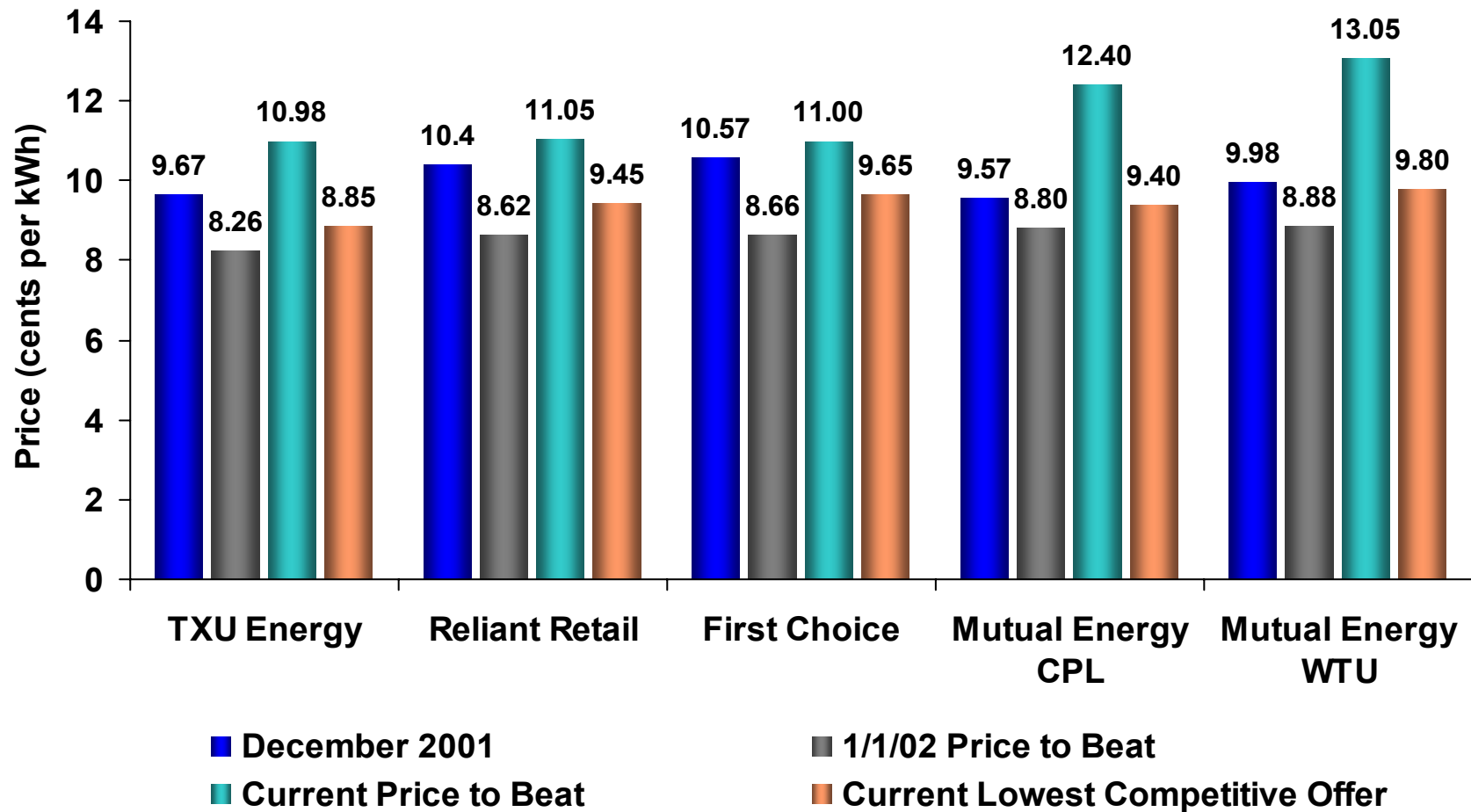


- ❑ **Past the 1,100,000 customer switch mark**
- ❑ **55 Active REP's, 85 Registered**

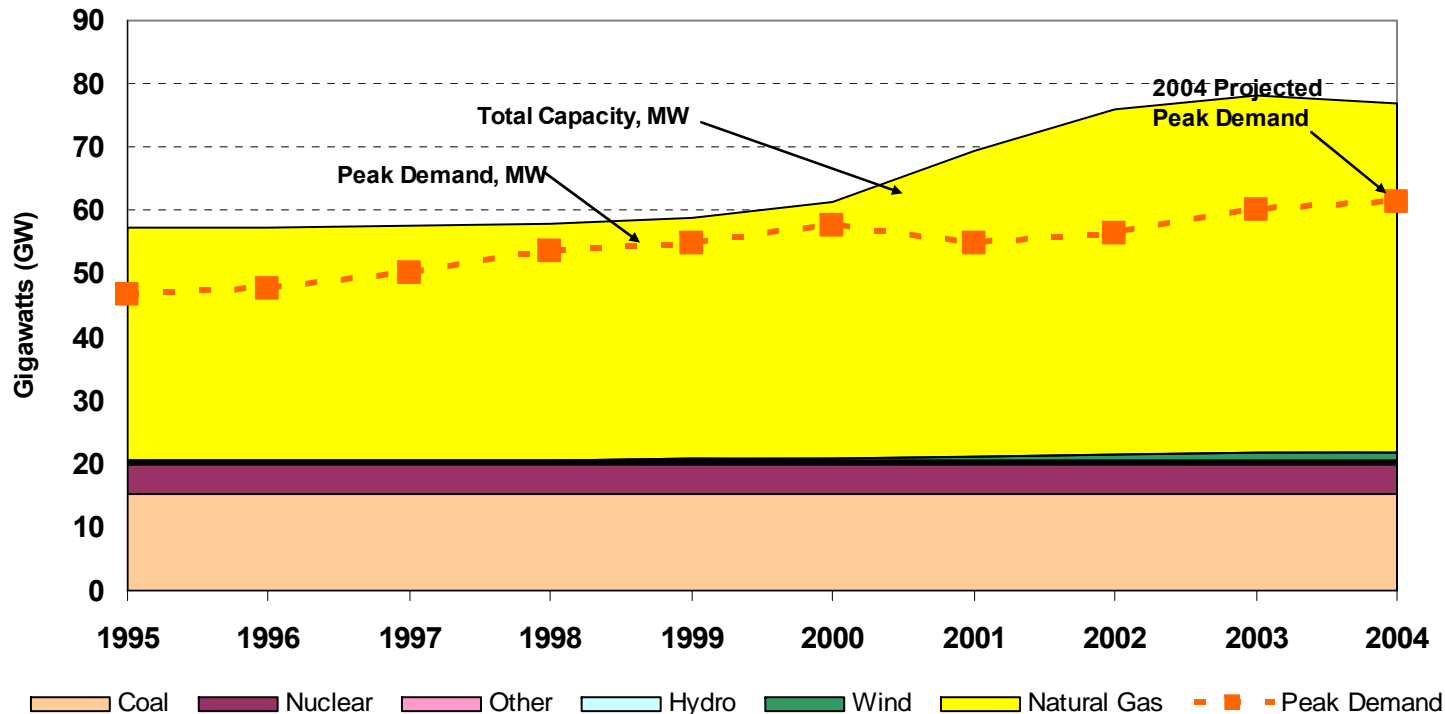
While Natural Gas Prices Have Presented Challenges...



...They Are Mitigated to a Degree for Those Customers That Choose

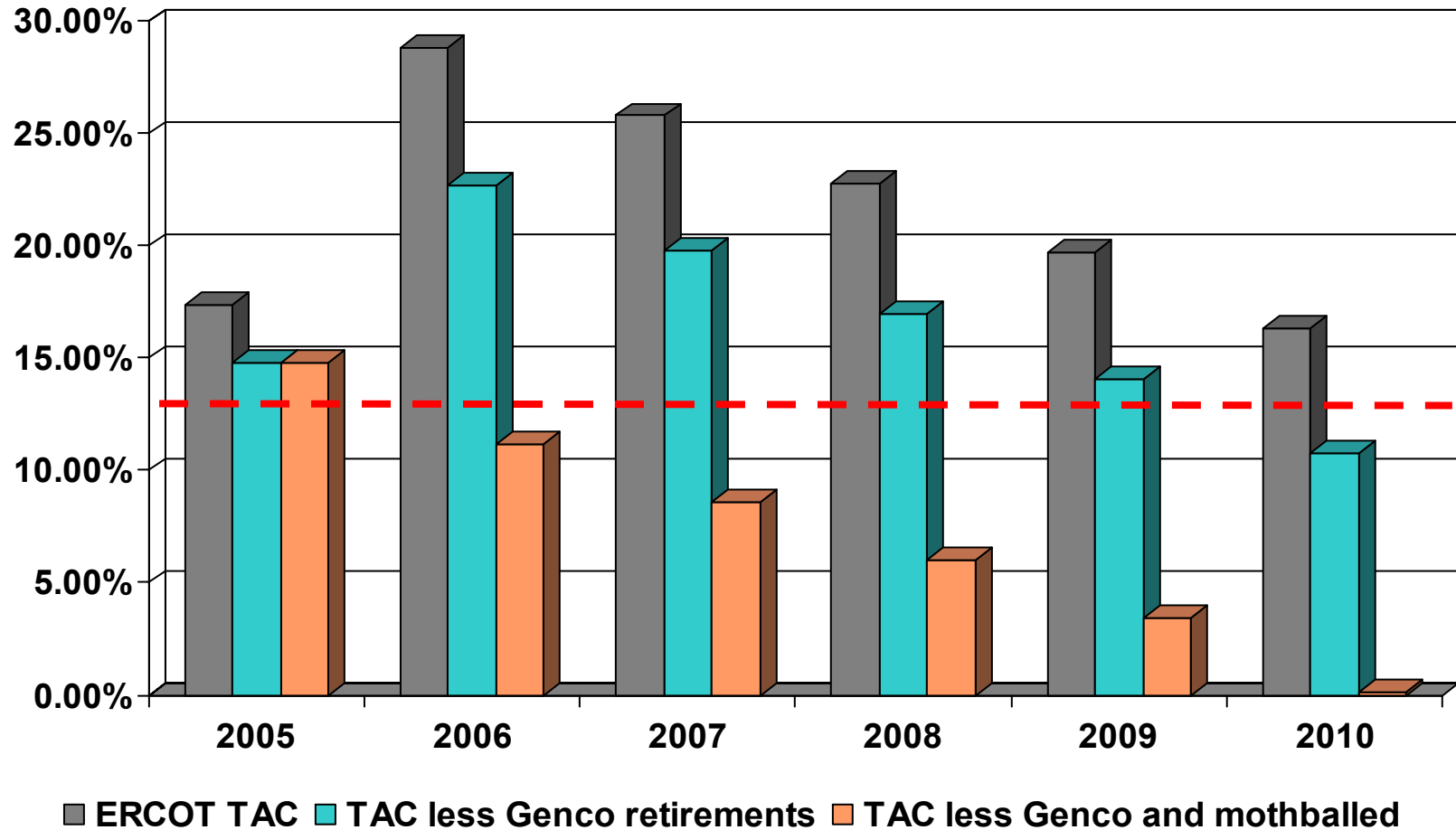


And, NG Generation has Allowed ERCOT to Meet Peak Demand...



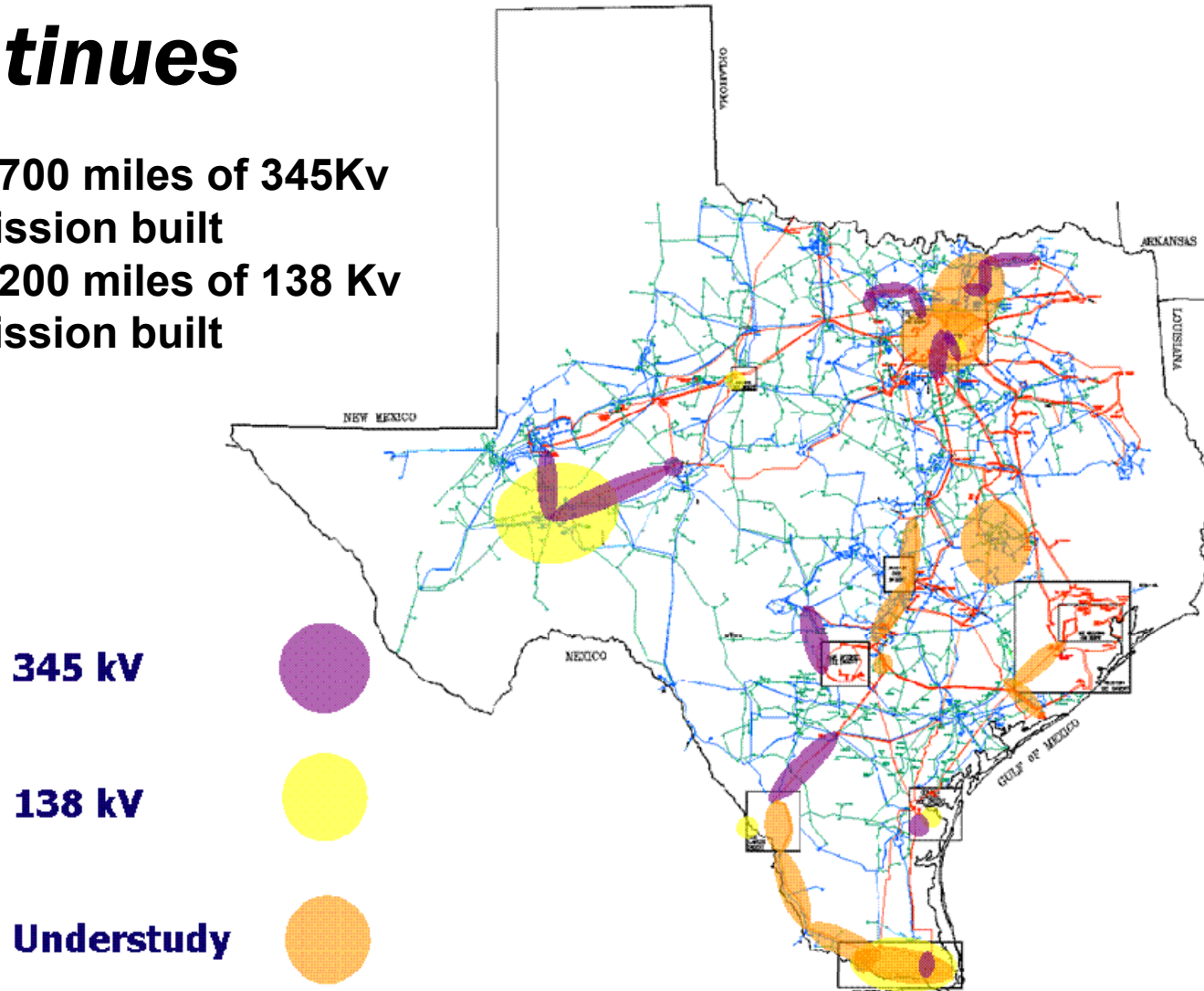
- 26,000 MW Combined Cycle Added over the last few years, not included in rate base
- And Note, Over 1000 MW of Wind with 2000 by years end

...Though Recent Scenarios Do Alter Reserve Capacity Margin Scenarios



And, Transmission Investment Continues

- Over 700 miles of 345Kv transmission built
- Over 200 miles of 138 Kv transmission built



Section 3

Restructuring Agenda

In My Sights, Retail and Other Market Challenges in '05...

- **Slowly maturing market → maturation of regulation**
 - **Monitoring competition Post Price-to-Beat floor expiration**
 - **Generally increasing resources devoted to market monitoring and enforcement**
 - **Customer education and protection**
- **Finalize SC proceedings and subsequent PTB changes**
- **Standard Tariff Adoption for T & D utilities**
 - **Prime opportunity to discuss cities' sunset issues**
- **Transmission system upgrade and development**
 - **Increased vigilance on reliability and security**
- **Work on restoring public confidence in ERCOT**

...and My Five in '05 - Wholesale Market Challenges

- **Nodal or Zonal (1)**
 - July decision
- **Mitigation or Market?**
 - Market power rule (2)
 - Competitive safeguards rule (3)
 - Define roles and responsibilities of market monitor and oversight division
- **Generation Adequacy (4)**
 - 13,500 MW of retirement/mothballing significant, but transitory in nature
 - ICAP or alternative?
 - Building generation diversity
- **Enforcement and Market Oversight Process Clarity (5)**
- **Obviously, any legislative changes might change priorities**

And Finally, What Might the Legislature Be Pondering?

- **5,400 bills filed by March 11 deadline**
 - **More than 15% of the total on the final day**
 - **PUCT tracking 155 electric and telecom bills, 76 admin. bills**
- **Among the bills – PUCT sunset legislation (HB 1777/SB 408)**
 - **Continue PUCT for 6 years**
 - **More accountability - ERCOT**
 - **Fund real-time market monitoring**
 - **Increase penalty authority**
- **Electric issues include bills filed:** SBF, Credit Scoring, Opt-out aggregation, Auction load blocks, RPS increase, Competition Delay, Allocation, BPL, Advanced energy technology, non-ERCOT competition, clean coal, metering, ERCOT, cost allocation, etc.
- **Telecom issues:** include deregulation, telemarketing, USF, facility relocation, ROW compensation, TIF, wireless etc.

Questions?