

Implementation of Retail Competition in Texas



National Association of Regulatory Utility Commissioners

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ACERCA /NARUC Meeting
Antigua, Guatemala
February 4-5, 2010



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Electric Competition Development in Texas

- 1995 – Texas legislation and FERC rules introduced competition at wholesale level
- September 1999 – 76th Texas Legislature enacted SB 7: retail competition law
- 2001 – Pilot program for retail competition
- *January 2002* – retail competition within ERCOT began with price regulation
- January 2007 – The regulated “price-to-beat” rate expired. True electric deregulation began.

Texas Electric Industry on January 1, 2002



Incumbent Utilities Unbundling

- Functional separation: Each incumbent vertically integrated utility was required to “unbundle”, i.e. separate into a Power Generation Company (PGC), a Retail Electric Provider (REP), and a Transmission and Distribution Service Providers (TDSPs)
- TDSPs continued to be **regulated monopolies** with sole focus on reliable delivery
- Each incumbent utility was required to sell at auction entitlements to at least 15% of its generation capacity until at least 40% of the electricity consumed in its service area is provided by REPs not affiliated with the formerly vertical utilities

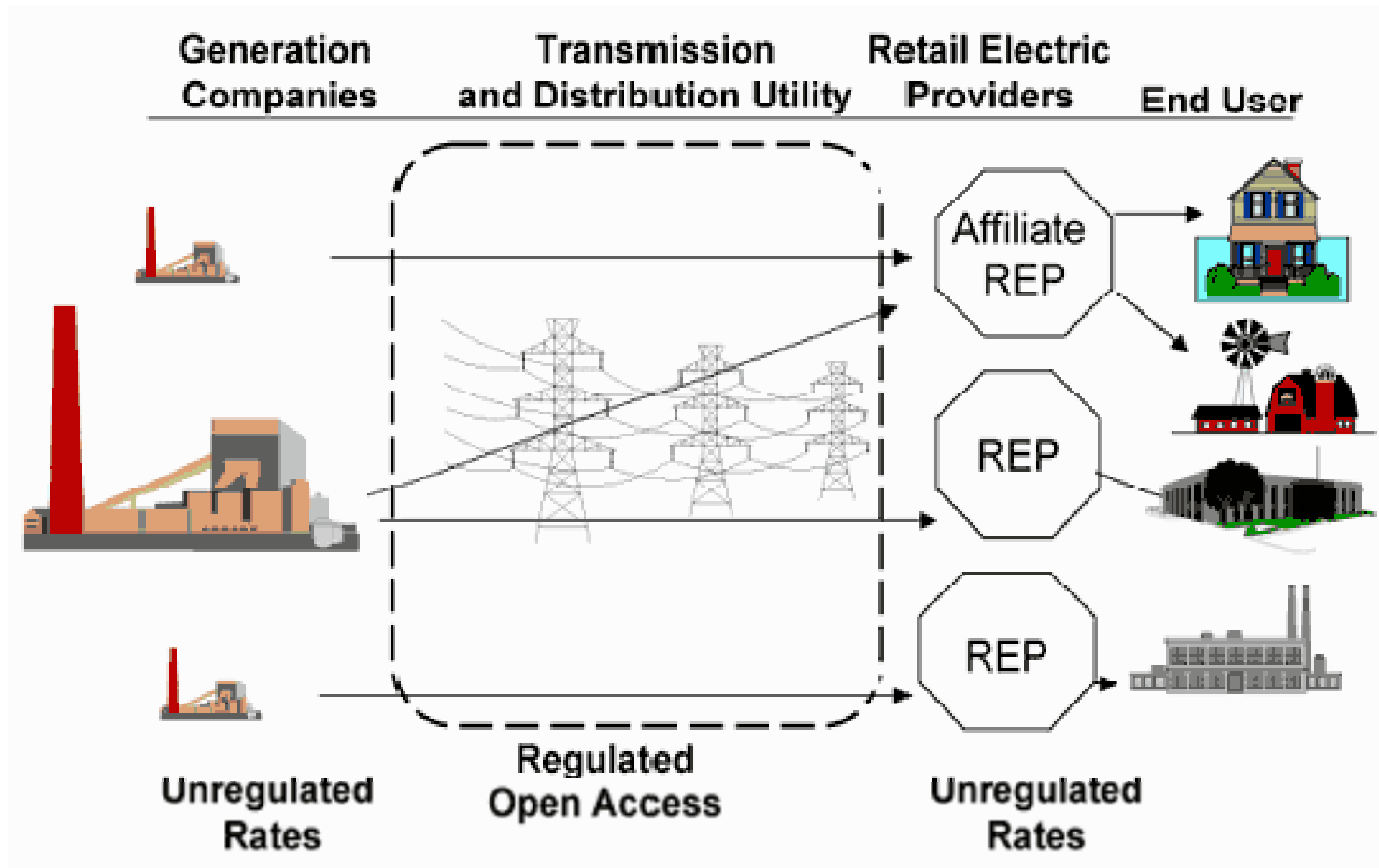


The New Market Players

- PGCs sell power at wholesale
- Power Marketers (PMs) engage in purchases and sales of power at wholesale
- REPs market and sell to end-use customers
- AREP or Affiliated REP is the Retailer that is affiliated with a regulated TDSP and inherit the customers of the former vertically integrated utility
- A code of conduct regulates communication between regulated companies (TDSPs) and their non-regulated affiliates



The Texas Competitive Electric Market



Promoting Retail Competition



The Price to Beat: a Transition Mechanism

- In traditional areas, AREPs can only sell to small customers under 1MW at a set price, the “Price-to-Beat” (PTB) during a transition period
- An AREP could not charge its residential and small commercial customers *a rate lower than the PTB*. This allowed new entrants to offer a rate lower than the AREP’s rate *and attract customers away from the AREP*



The Price to Beat: a Transition Mechanism

- The PTB was in effect for 5 years, or until the AREP lost 40% of its residential and small commercial customers
- At the end of the 5 year transition period, the Commission evaluated the competitiveness of the market and found that there was enough competition to allow the PTB to expire on January 1, 2007



The Price to Beat: How did it Promote Competition?

- The PTB included:
 - The TDSP component of all retail rates, including T&D charges, metering charges, and the *system benefit fund* charge
 - The wholesale cost of purchasing electricity
 - Retail sales and marketing costs, and
 - A “*headroom,*” or *profit margin, that would enable new entrants to compete against it*



Other Measures to Promote Transition to Competitive Market

Obligation to serve:

- Customers who did not choose a new supplier defaulted to the AREP who had *an obligation to serve* at PTB for five years

Provider of Last Resort (POLR):

- The POLR serves as *safety net* for customers if their provider of choice fails to serve them. The POLR's rate, while usually higher than PTB, is capped.

Customer Education



Customer Education

- The Legislature required that the Commission conduct consumer education to inform consumers about their choices
- The Commission launched the “Texas Electric Choice” campaign in February 2001 through:
 - Paid advertising
 - A toll free billing call center
 - A website in English and Spanish
 - Educational literature



State Power to Choose Website

www.powertochoose.org

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SHOP. SWITCH. SAVE.



The Official Electric Choice Web site of the Public Utility Commission of Texas

Welcome to the Texas Electric Choice Web site, where you can learn about electric competition in Texas and obtain information to help you make informed decisions about your electricity service and Retail Electric Provider. Select from the categories above to learn about electric choice and the options available for you in the marketplace.

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State Power to Choose Website

www.powertochoose.org



SHOP. SWITCH. SAVE.

ABOUT ELECTRIC CHOICE

REASONS TO CONSIDER SWITCHING

COMPARE YOUR CHOICES

AVAILABLE OFFERS

Click the column headings to sort offers by the column, or use the search box to sort and narrow your options. Click on the question mark in the search box for help using this page.

SEARCH CRITERIA

Zip Code: 78550

TDU Service Areas:

☒ AEP TEXAS CENTRAL COMPANY

Rate Type: Variable

Renewable Content: All

Price (cents per kWh):
 From: To:

Contract Term (months):
 From: To:

REP Company: ALL

Or check boxes to compare offers

Submit

Retail Electric Provider	Avg. Price/kWh (1,000 kWh)	Cost per 1,000 kWh	Rate Type	Renewable Energy Content	Term (Mo.) Cancellation Fee
StarTex Power Promotional Month to Month Terms of Service Facts Label Sign Up Special Terms	9.8¢	\$98.00	Variable	0%	1 None
National Power Company National Freedom E-Bill Plan Terms of Service Facts Label Sign Up Special Terms	10.0¢	\$100.00	Variable	0%	1 \$0.00
Gexa Energy Power Plan Terms of Service Facts Label Sign Up Special Terms	10.1¢	\$101.00	Variable	3%	1 \$0.00
Ambit Energy Lone Star Gold Month to Month Terms of Service Facts Label Sign Up Special Terms	10.5¢	\$104.90	Variable	4%	0 \$0.00
National Power Company National Freedom Plan Terms of Service Facts Label Sign Up Special Terms	10.5¢	\$105.00	Variable	0%	1 \$0.00
Riverway Power Monthly Saver- Hassle Free Plan Terms of Service Facts Label Sign Up Special Terms	10.5¢	\$105.00	Variable	1%	1 \$0.00

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Customer Protection and The System Benefit Fund



Customer Protection Rules

- Commission adopted several Substantive Rules, including 25.471 to 25.485, 25.491, and 25.492
- **These rules included:**
 - Prohibition on discrimination (S.R. 25.471);
 - Privacy of customer information (S.R. 25.472);
 - Non-English language requirements (S.R. 25.473);
 - Customer choice and slamming protections (S.R. 25.474);
 - Standard information disclosures (S.R. 25.475);
 - Non-discriminatory credit and deposit policy (S.R. 25.478);
 - Accuracy of metering & billing, easy-to-read bills & cramming protections (S.R. 25.476 and S.R. 25.479);
 - Termination of contract and physical disconnection policy (S.R. 25.482 and S.R. 25.483);
 - Do-not-call list (S.R. 25.484); and
 - Prompt dispute resolution (S.R. 25.485)



Consumer Protection Division

- The Commission has a Consumer Protection Division to respond to consumer complaints and handle customer education activities
- Complaints increased during the first months regarding billing problems, problems with switching transactions, and lack of transparency of the charges on the bills



Low income Customer Protection

- The Legislature created a System Benefit Fund to help low income customers and to fund the customer education campaign
- All customers pay a charge per kWh consumed toward the fund
- The fund provided for rate discounts of 10-20% for low-income customers, depending on income level
- The fund also provided for weatherization of homes for low-income customers
- The fund was reduced in 2004 and 2005



Results of Competition Policies

- In the first 9 months of competition, 25 REPs had entered the market and 400,000 residential customers had switched providers
- By September 2004, 1 million retail customers had switched to a REP
- By October 2006, 1.8 million residential customers had switched
- REPs now provide more than half of all energy consumed across all consumer classes, and 40% of residential customers have chosen a REP



Texas Electric Choice Program Websites

- www.powertochose.org
- www.poderdeescoger.org