



CITIES AGGREGATION POWER PROJECT

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Overview

In 1999, Texas lawmakers adopted Senate Bill 7 (SB 7), the state's electric deregulation law. The legislation expanded competition in the wholesale electricity market and opened the door to competition among electric retailers. Supporters of the legislation promised lower rates.

Unfortunately, the reality has been otherwise. During the decade before SB 7, Texans paid electric prices well below the national average. (See Figure 1 on following page.) In the years since market restructuring, Texans not only paid above the national average, but residential prices have increased by a greater percentage in Texas than in almost every other state in the union – including every other deregulated state with retail competition. (See Figure 2.)

CAPP believes that many of the current problems stem from defects in the wholesale electricity market. Generators, for instance, have managed to exercise monopoly-like control in large areas of Texas. That has hindered the development of healthy competition. At the same time, efforts to address problems by the Electric Reliability Council of Texas (ERCOT) have been misguided, mismanaged, gone over budget and fallen behind schedule.

CAPP supports all legislation that contributes to a truly healthy electric market where consumers can save and competition can flourish. Such a market — one where power remains affordable and reliable — will mean more economic development for our cities and a better standard of living for our citizens.

Critical Electric Legislative Issues in the Texas House

AT A GLANCE

MARKET POWER ISSUES

- All generators, regardless of size, should explicitly be barred from the unlawful exercise of market power. Current regulations exempt smaller generators from market power prohibitions. (HB 3245)
- Entities harmed by power market abuse – such as municipalities, commercial customers or retail electric providers – should be given explicit standing to participate in enforcement actions brought by the Public Utility Commission (PUC). Affected parties are currently barred from participating in such proceedings. (HB 2851 and HB 3245)
- Ownership and control of generation capacity should be limited to no more than 20 percent of total generation capacity within the functional market (ERCOT zone) in order to enhance competition and mitigate market power and the ability of any one generator to affect prices. In the alternative, the PUC should be directed to create a single ERCOT-wide market with uniform congestion pricing. (HB 2782)

ERCOT ISSUES

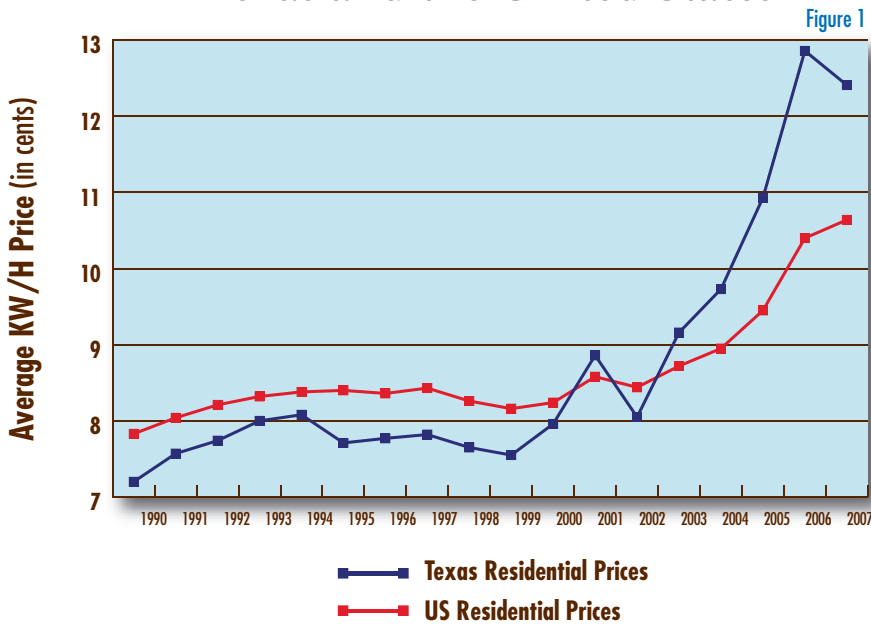
- Direct ERCOT, the organization that administers the state power grid, to abandon all efforts to transition to a nodal market. (HB 2781 and HB 3245)

CITIZEN AGGREGATION

- Permit cities to create and implement opt-out citizen aggregation program. (HB 2780) In the alternative, permit cities to become Retail Electric Providers or Municipally Owned Utilities.

Average Residential Electricity Prices Texas and the United States

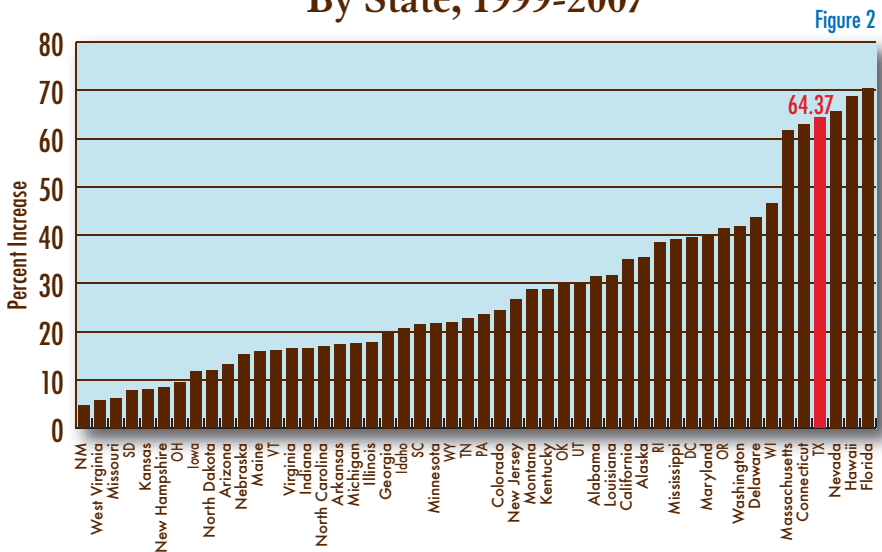
SOURCE: The U.S. Energy Information Administration



For years Texans enjoyed electricity prices well below the national average. But after the state deregulated, residential prices for electricity shot up above the national average. Note the spike in rates in 2001, just prior to the beginning of retail electric competition. This spike reflects regulatory decisions that allowed utilities in Texas to charge rates that resulted in revenues far above levels normally allowed for monopoly providers. Utilities also were permitted to collect fuel surcharges far in excess of the actual price of fuel. Regulators made these decisions in anticipation of the state's move to deregulation. Rates dropped once the market opened, reflecting the expiration of the high fuel surcharges and a rate cut mandated by SB 7. But since 2000, residential rates have remained above the national average.

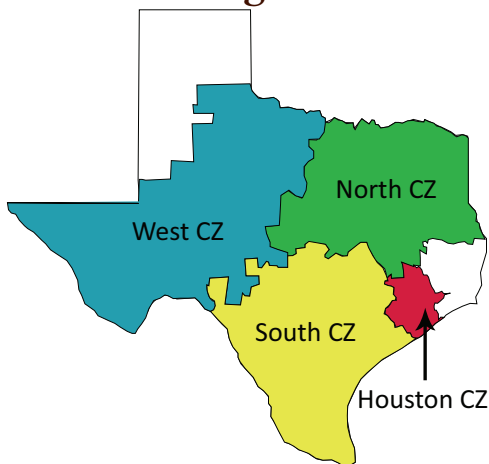
Residential Electricity Price Increases By State, 1999-2007

SOURCE: The U.S. Energy Information Administration



Few states have had electric prices increase more than they have in Texas. This chart shows that only people living in Nevada, Hawaii and Florida have suffered percentage increases in residential rates greater than those experienced in Texas.

ERCOT Congestion Zones



Nodal Transition Cost Increases Since 2004

