



Update on the Competitive Electric Market in Texas

Testimony before the Senate Committee on Business & Commerce
October 25, 2010

AECT Principles



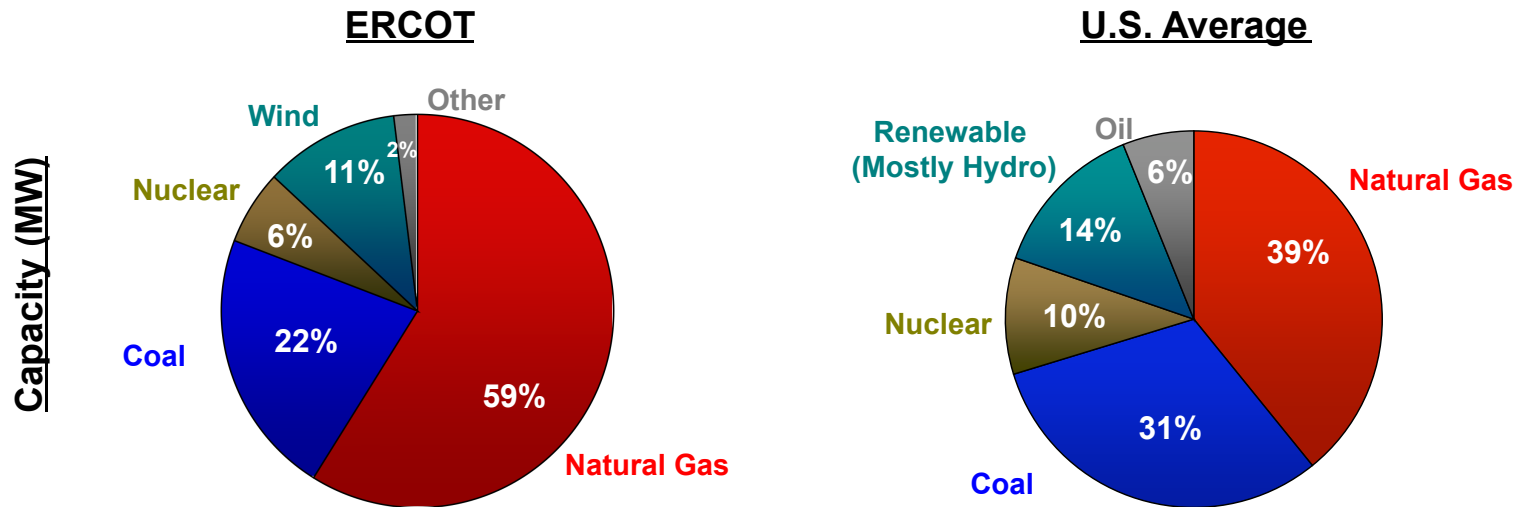
- AECT is an advocacy group composed of member companies committed to:
 - Ensuring a modern, reliable infrastructure for the supply & delivery of electricity.
 - Supporting efficient competitive markets that are fair to customers and market participants.
 - Supporting consistent and predictable oversight and regulation that will promote investment and ensure the stability of Texas' electric industry.
 - Promoting an economically strong and environmentally healthy future for Texas, including conservation and efficient use of available resources.
- AECT member companies remain dedicated to providing Texas customers with reliable service and are committed to the highest standards of integrity.

The Association of Electric Companies of Texas, Inc. (AECT) is a trade organization of investor-owned electric companies in Texas. Organized in 1978, AECT provides a forum for member company representatives to exchange information about public policy, and to communicate with government officials and the public. For more information, visit www.aect.net.



Prices in the Competitive Electric Market in ERCOT

ERCOT Generation Mix More Gas-Heavy than U.S. Average



“ERCOT has the highest dependency on natural gas of any other region”

- ERCOT

Note: Oil-fired generation is negligible in ERCOT, accounting for less than 0.1% of ERCOT capacity and load; numbers may not add up to 100% due to rounding.

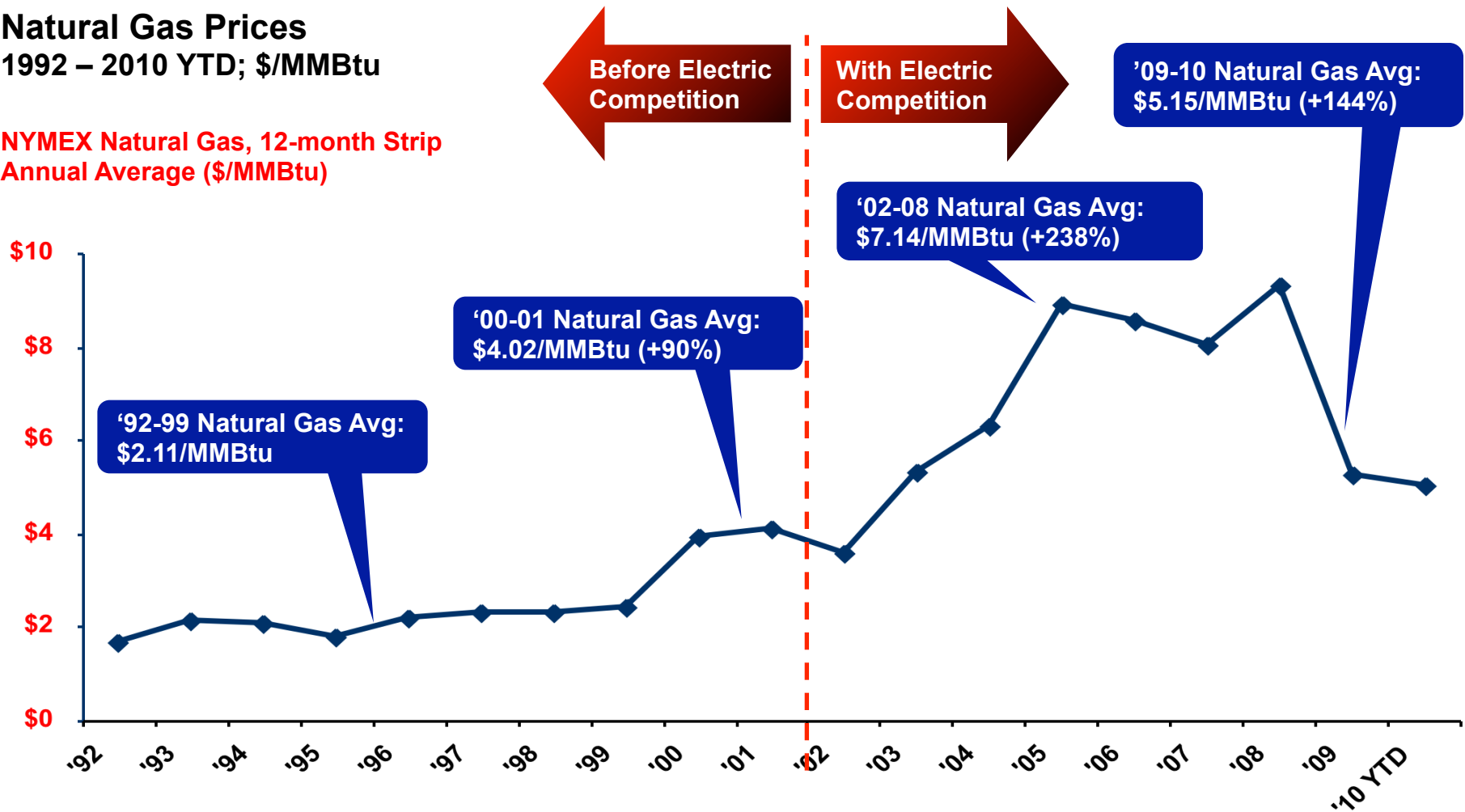
Sources: PUC(2010 summer data, no wind adjustment), EIA (2008 data, latest available)

Natural gas prices have been volatile, still substantially higher than before the market opened



Natural Gas Prices 1992 – 2010 YTD; \$/MMBtu

**NYMEX Natural Gas, 12-month Strip
Annual Average (\$/MMBtu)**



Source: NYMEX (latest data as of 10/11/10)

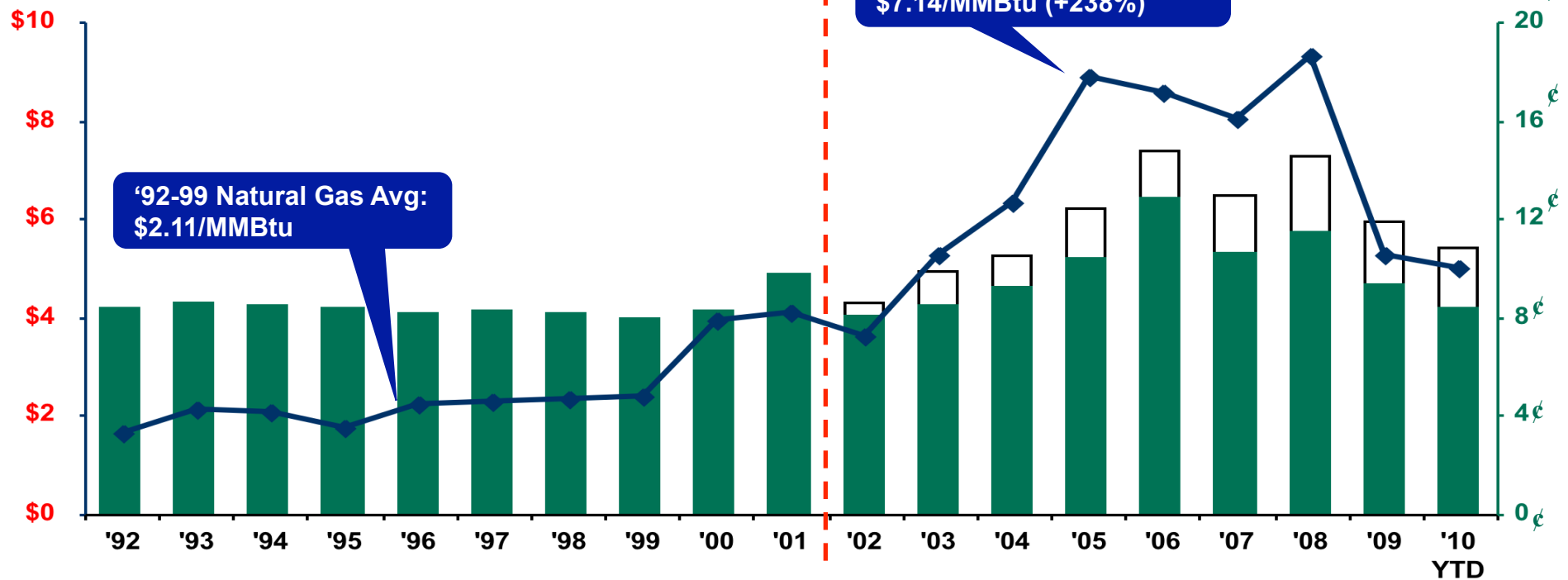
Competitive electricity prices still track natural gas, but enable customer choice and lower prices



Natural Gas vs. Texas Residential Retail Electricity Prices In Areas Now Open to Competition 1992 – 2010 YTD; \$/MMBtu and ¢/kWh

NYMEX Natural Gas, 12-month Strip Annual Average (\$/MMBtu)

Residential Electricity Price Annual Average (¢/kWh)¹



¹ Average annual residential electric prices at 1000 kWh/month in the 5 TDU areas opened to competition in 2002; pre-competition prices based on filed tariffs; post-competition prices based on Power to Choose offerings and PUC data. Sources: NYMEX, PUC, Power to Choose website (latest data as of 10/11/10)

Price offers falling in recent years



Offers and Prices – October 2007 – October 2010

| | Oct-07 | Oct-08 | Oct-09 | Oct-10 |
|---|-----------|-----------|-----------|-----------|
| # of 1-Year Fixed-Price Price Products | 33 | 32 | 39 | 69 |
| Average 1-Year Fixed-Price Offer | 12.7¢/kWh | 14.9¢/kWh | 11.7¢/kWh | 10.0¢/kWh |
| Lowest 1-Year Fixed-Price Offer | 11.0¢/kWh | 12.8¢/kWh | 10.4¢/kWh | 8.8¢/kWh |
| Lowest Offer Available in the Market | 10.0¢/kWh | 11.5¢/kWh | 9.1¢/kWh | 7.5¢/kWh |

Source: Offer prices averaged from the 5 TDU areas open to competition from www.powertochoose.org (10/22/10) for a residential customer using an average of 1,000 kWh per month

Recent news and updates on the competitive electric market



Fort Worth Star-Telegram

Shop Now for Cheaper Electric Rates

By Jack Z. Smith, October 7, 2010

"There are one-year fixed rates available that are below what most North Texans were paying just before the majority of the state's electricity market was deregulated nearly nine years ago, on Jan. 1, 2002."

- "Nineteen one-year, fixed-rate plans below 9 cents per kwh, including two at 8.4 cents, six at 8.5 cents, three at 8.6 cents, four at 8.8 cents and four at 8.9 cents."
- "Six two-year fixed-rate plans at 9 cents per kwh."
- "Fourteen all-renewable energy, one-year fixed-rate plans below 10 cents, ranging from 8.8 cents to 9.8 cents per kwh."

Sources: EIA, www.powertochoose.org,

Recent Stats

As of July 2010 (latest available), statewide residential electric prices in Texas are below the national average.

Competition is fierce. For example, there are 51 different 1-year fixed-price offers in North Texas (Oncor) below 10 cents.

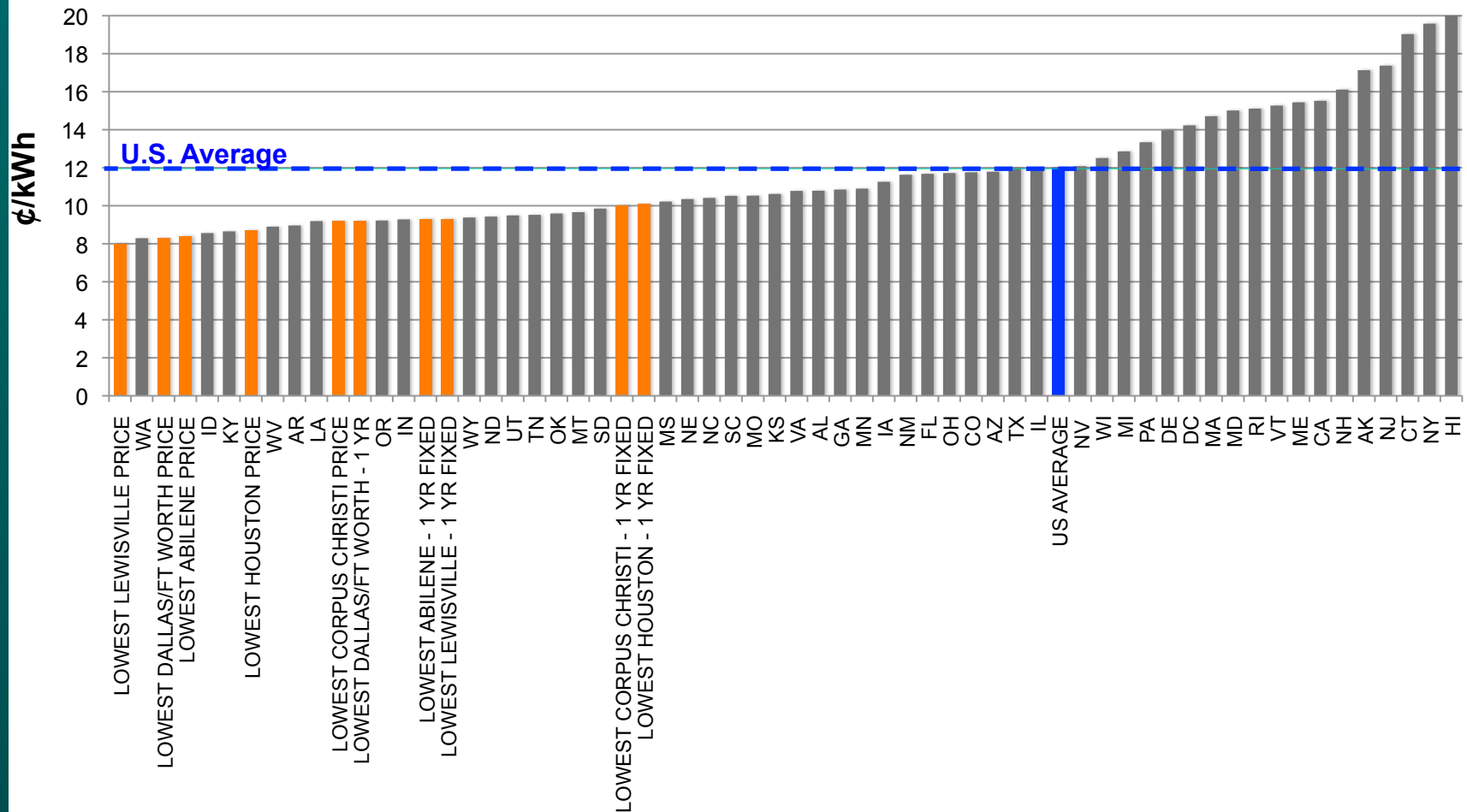
Competition is helping to push prices down: the average 1-yr fixed price offer in competitive areas of Texas has fallen 33% in the past two years.

Every Competitive Area in ERCOT Has Variable and 1-Year Lock Offers Available that are Lower than the National Average Price



Residential Retail Electric Prices

All Data as of July 2010

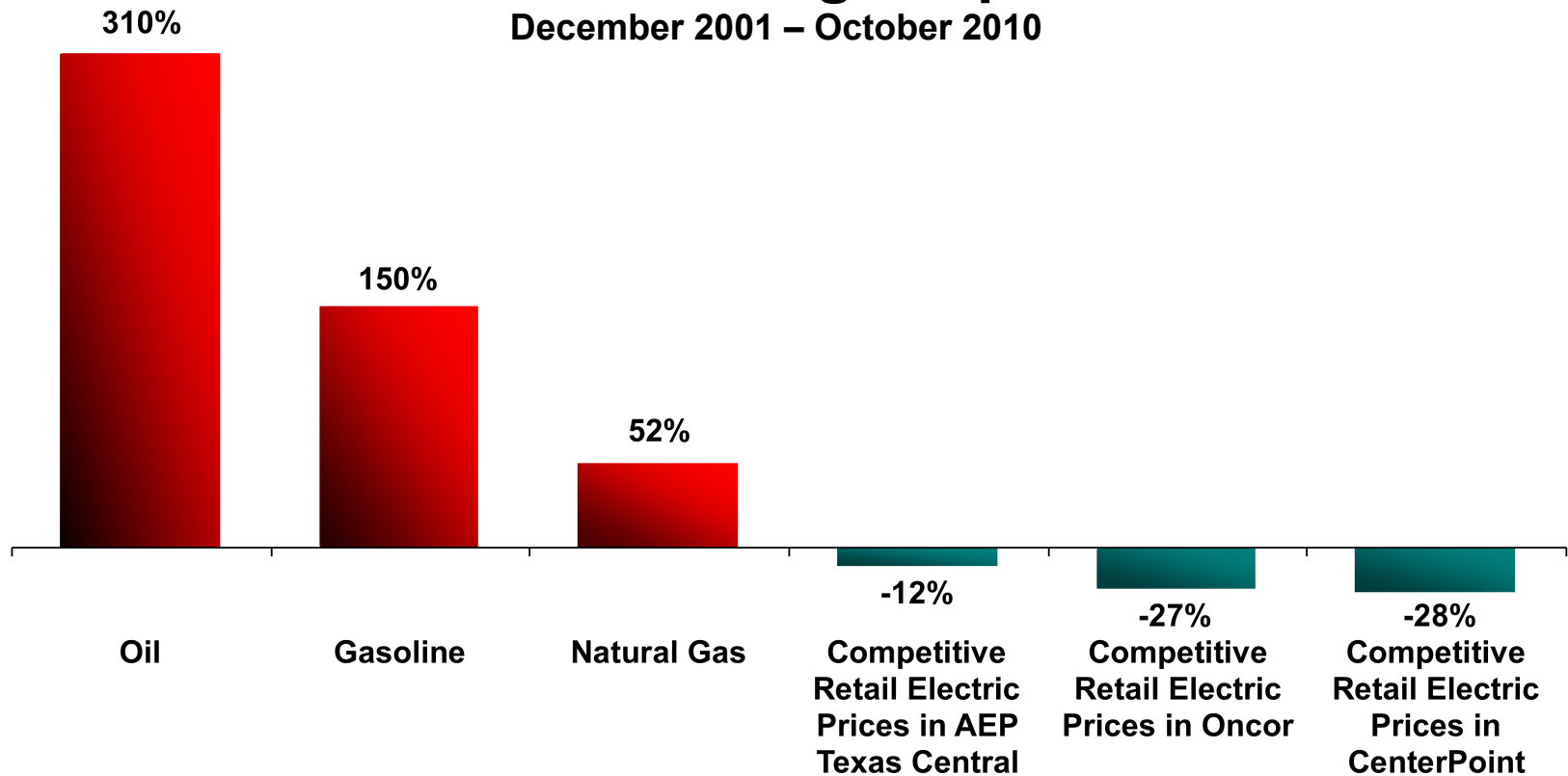


Sources: Energy Information Administration, www.powertochoose.org

Retail electric price offers have fallen while energy commodity prices have risen



Percent change in price December 2001 – October 2010

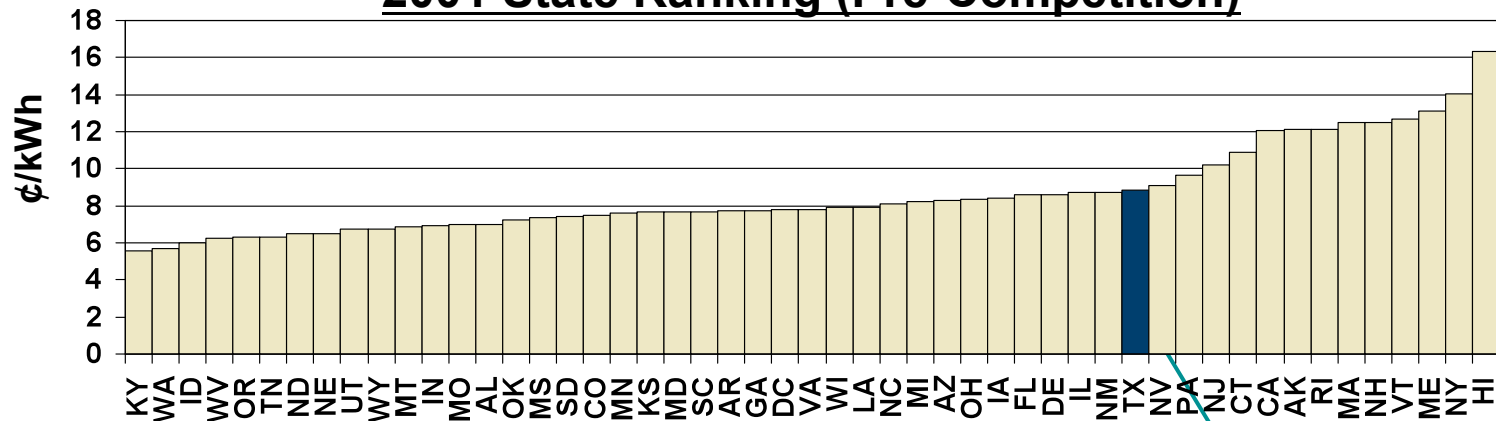


Sources: Public Utility Commission of Texas; www.powertochoose.org (1,000 kWh monthly usage); EIA (Cushing, OK Oil Future Contract 1 Prices; US All Grades Conventional Retail Gasoline Prices); NYMEX (natural gas 12-month strip); all data as of 10/11/10

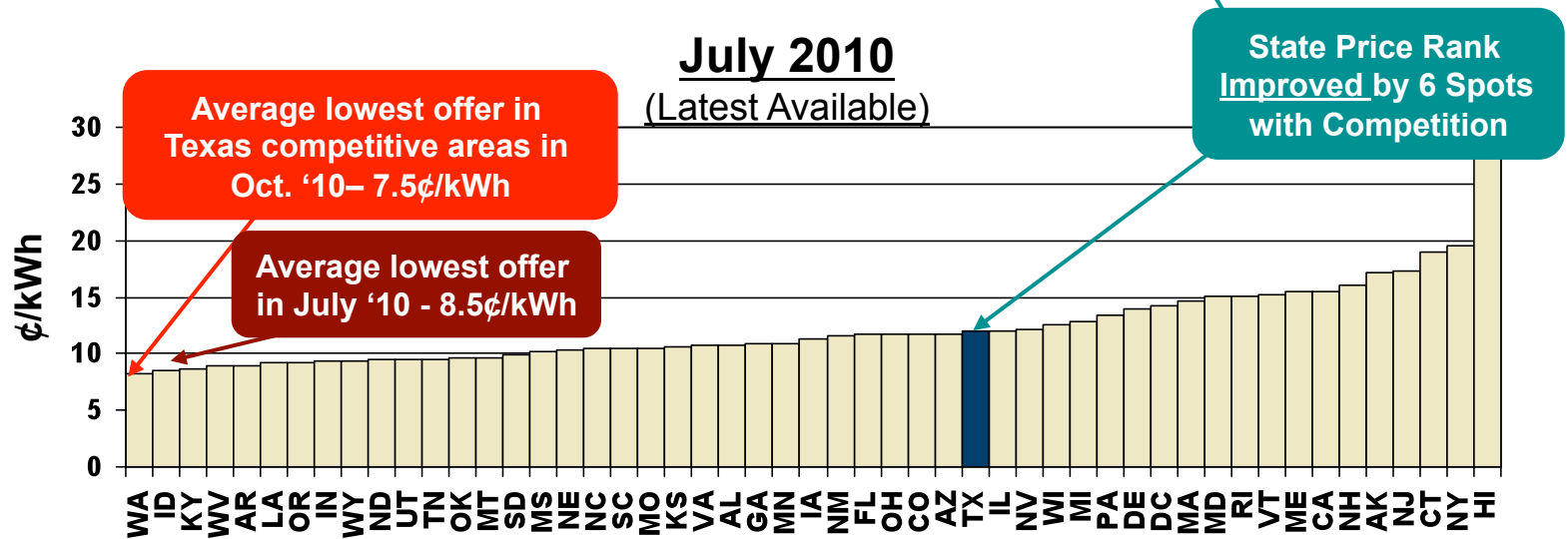
Texas competitive electric prices compare well to the rest of the nation



2001 State Ranking (Pre-Competition)

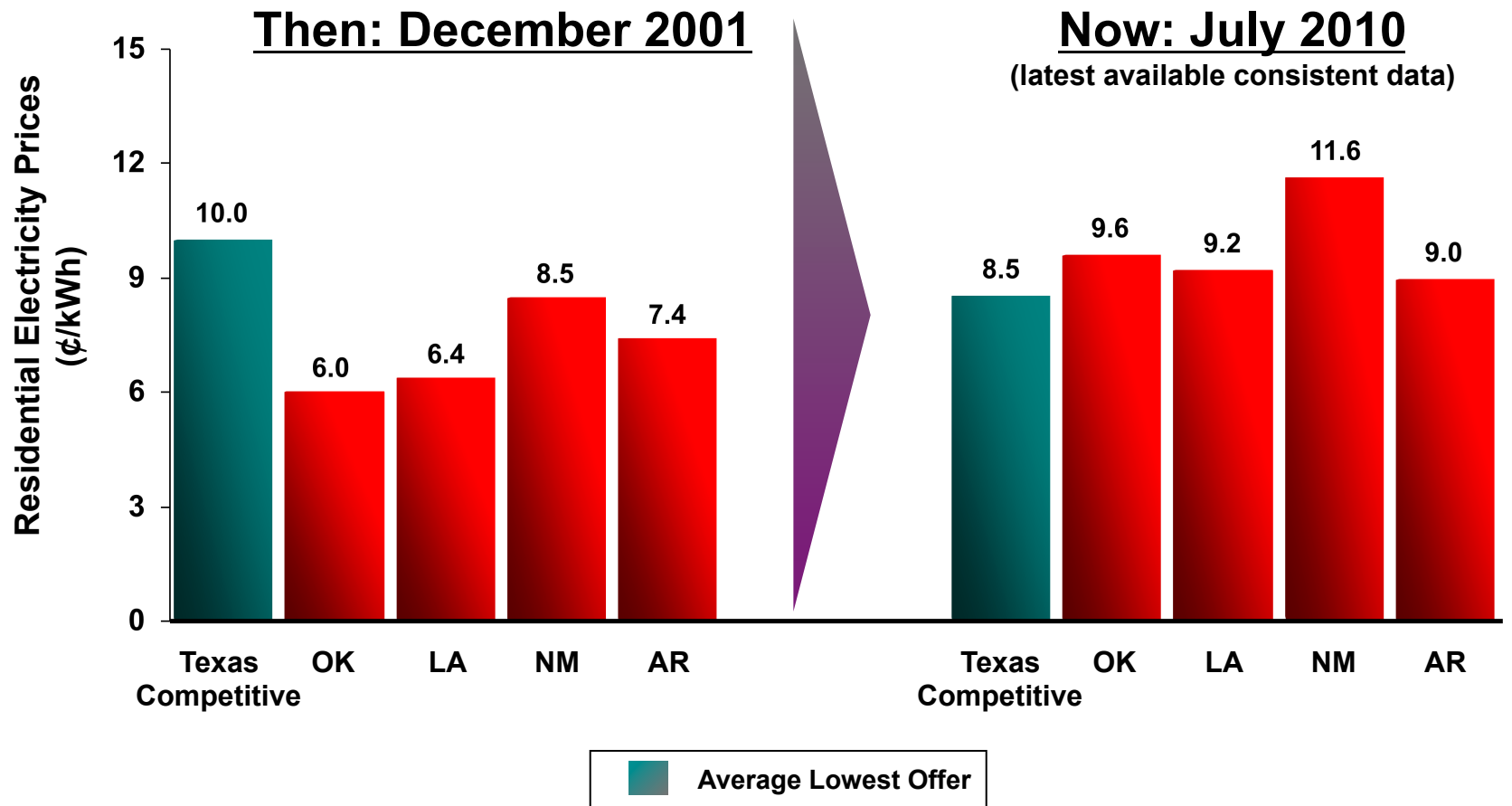


July 2010 (Latest Available)



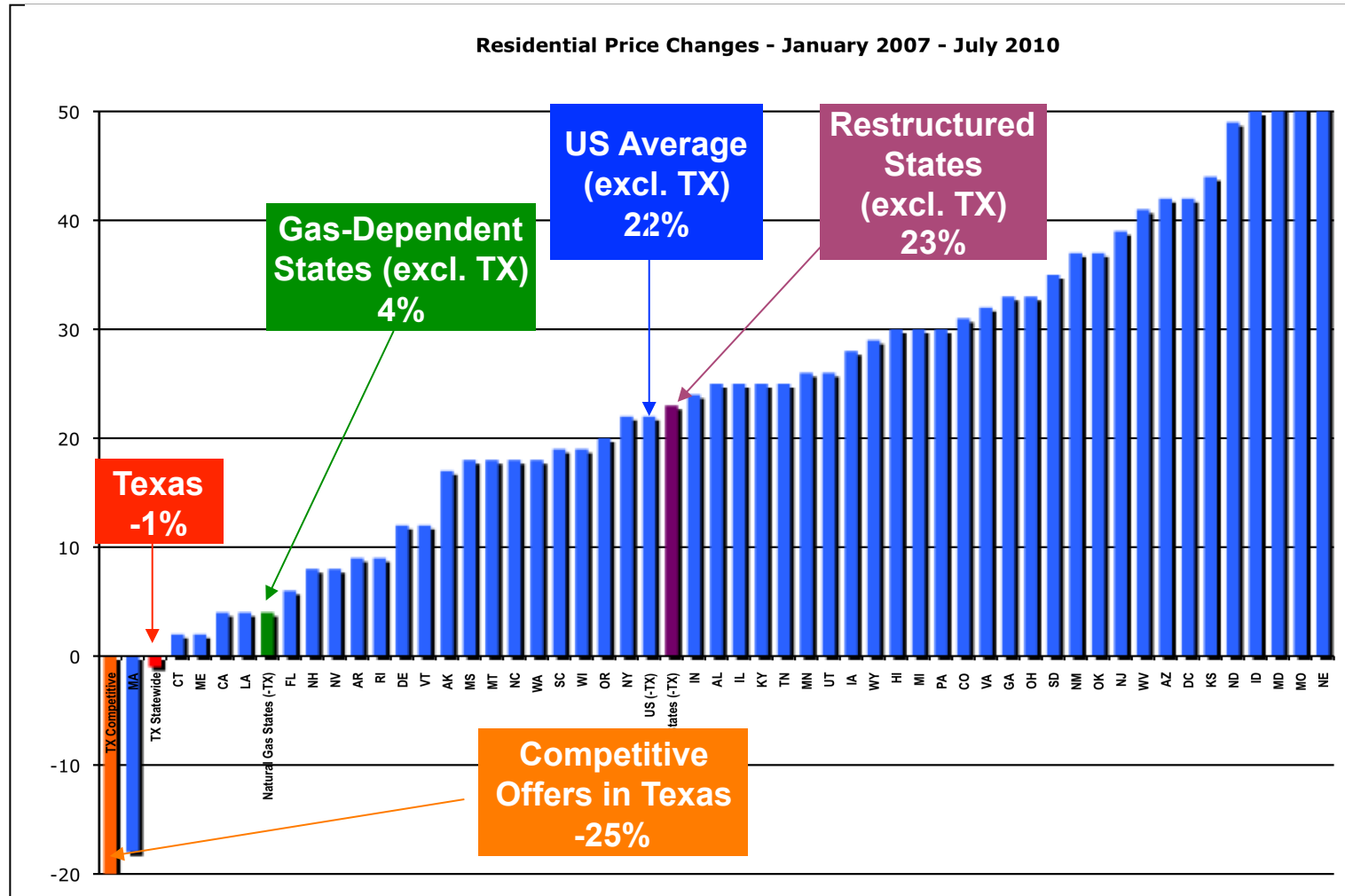
Sources: EIA average annual residential rates for 2001 and July 2010 monthly data (latest available information). Average of lowest available prices in the 5 TDU areas open to competition from www.powertochoose.org (10/22/10) for a residential customer using an average of 1,000 kWh per month

Texas competitive offers compare favorably with prices in neighboring states



Sources: EIA; PUCT; www.powertochoose.org

Since 2007, competitive offer prices have dropped steadily while others' rates have risen



Sources: EIA average annual residential rates for January 2007 and July 2010, powertochoose.org for July 19, 2010

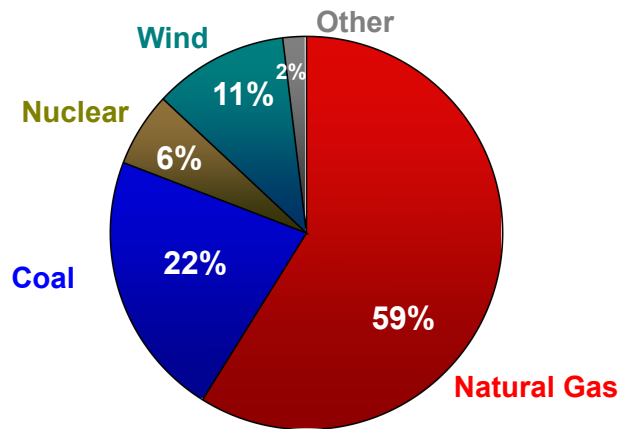


Appendix

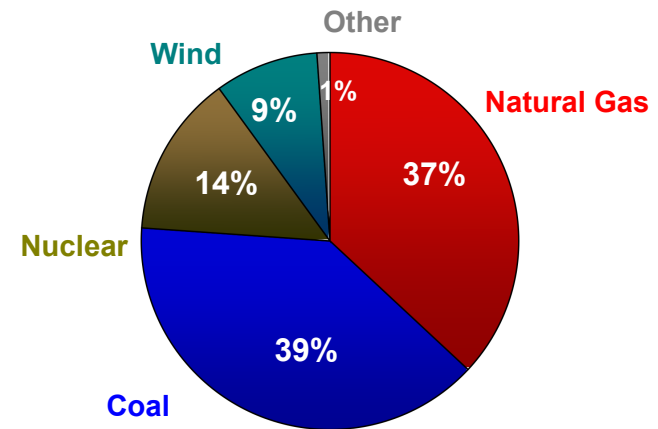
ERCOT Generation Mix In 2009



**2010 Electric Capacity
by Fuel Type**



**2010 Electric Generation
by Fuel Type**

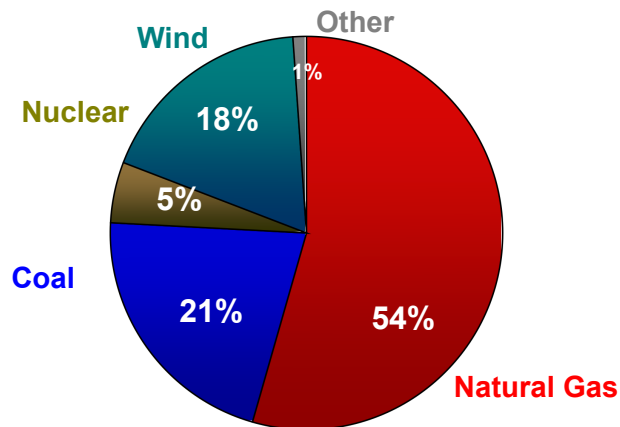


Source: PUC Chair Barry Smitherman, Presentation to the Senate Natural Resources Committee, August 18, 2010

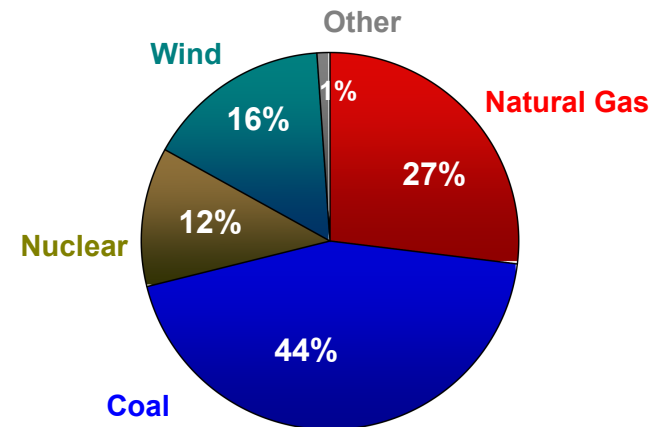
ERCOT Generation Mix In 2009



**2013 Electric Capacity
by Fuel Type**

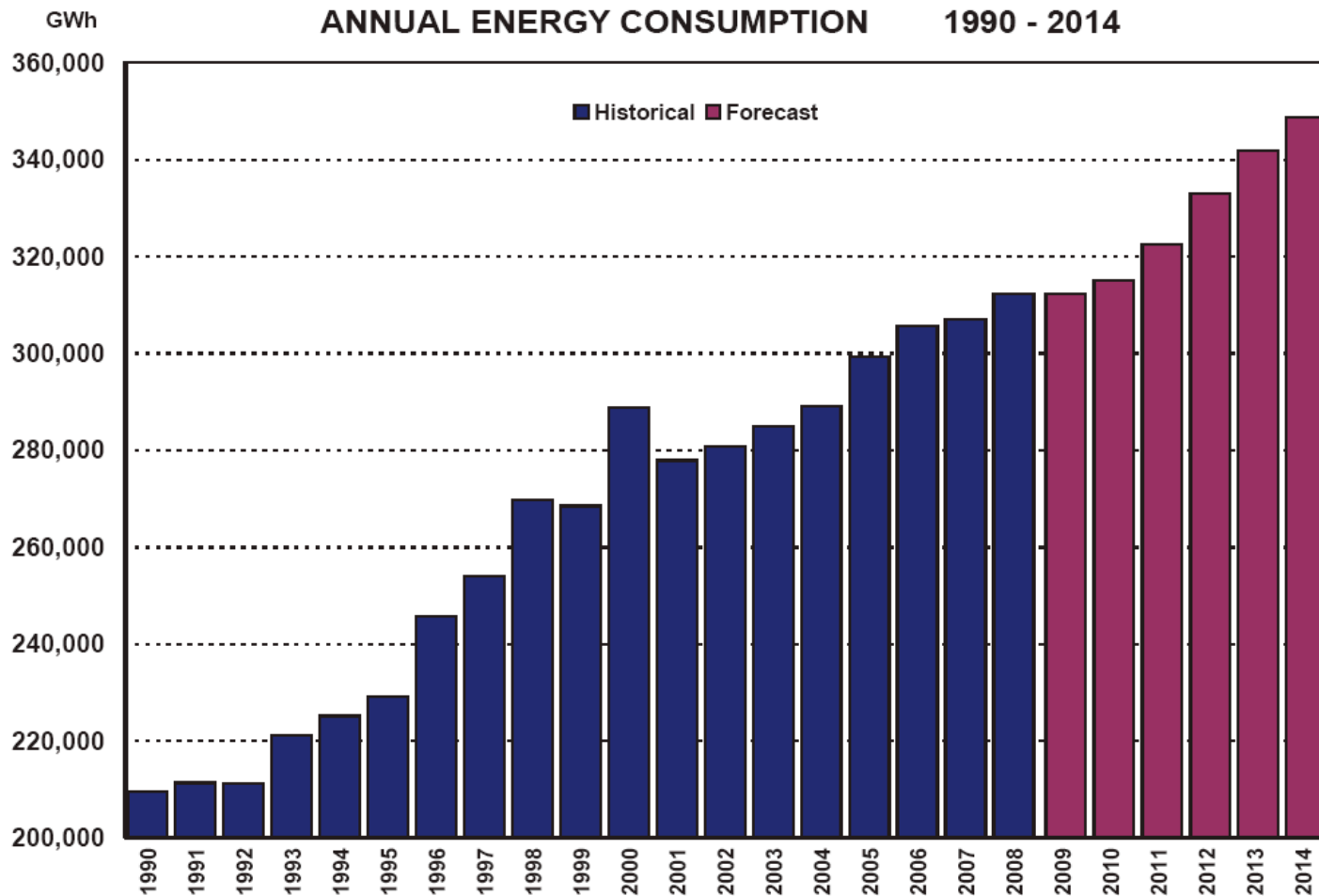


**2013 Electric Generation
by Fuel Type**



**Assuming 18,000 MW of wind, approximately 5,600 MW of new coal,
4,300 MW of new natural gas**

Electric Consumption Continues to Grow in ERCOT



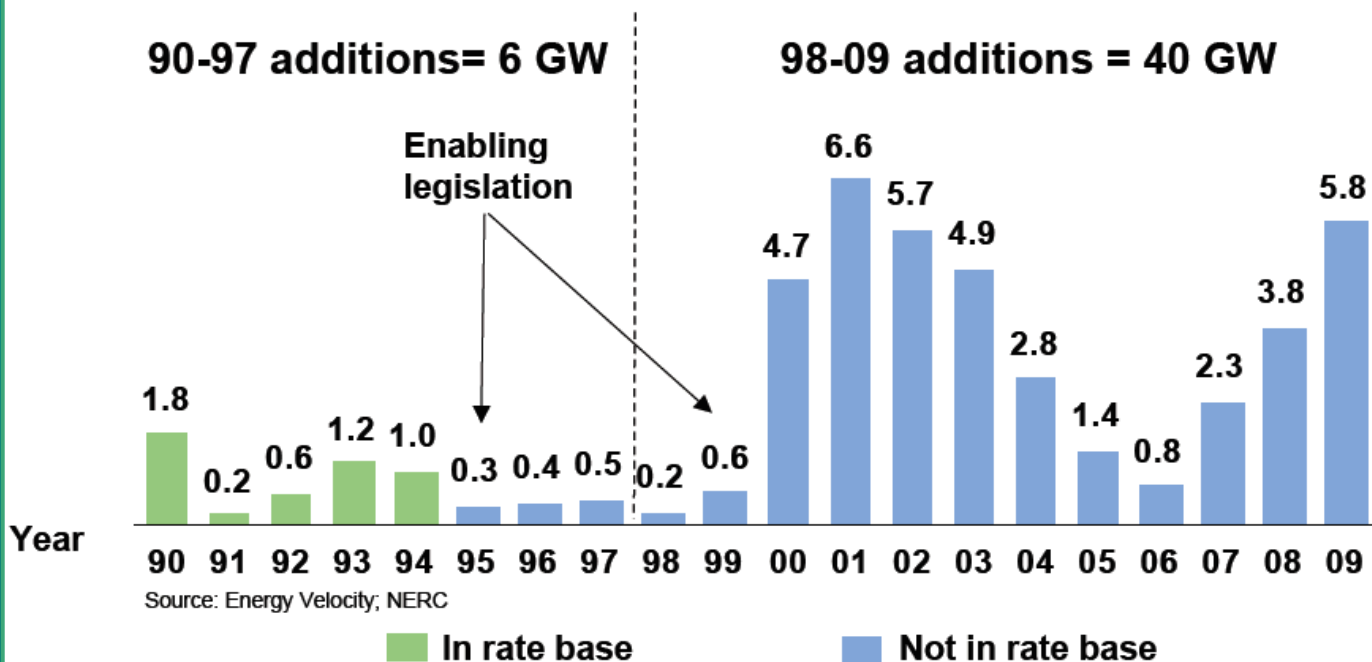
Note: The peak in electric consumption in 2000 was due to an exceptionally hot summer.

Source: ERCOT, "Report on Existing and Potential Electric System Constraints and Needs," December 2009

Generation investment in ERCOT



**Capacity additions
1990-2009; GW**

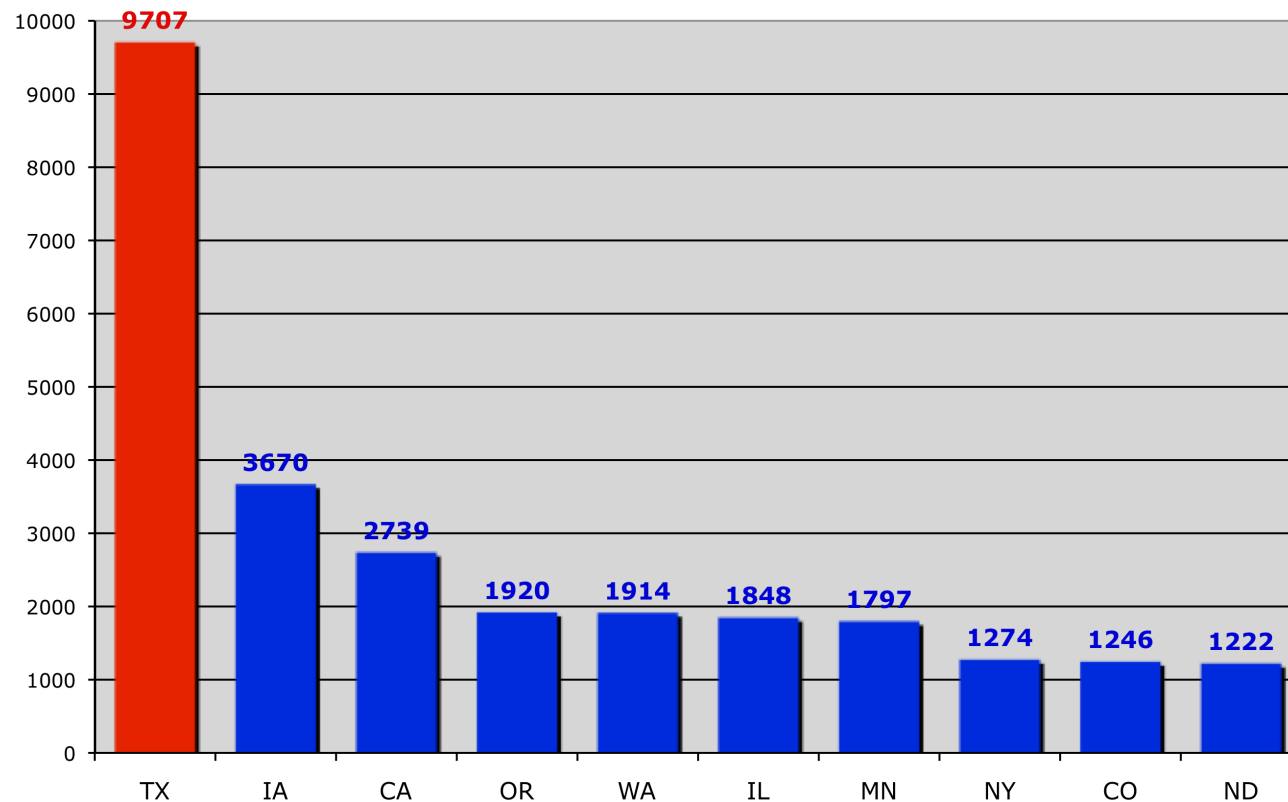


- The competitive market has steadily added new generation and greater efficiency to the wholesale market.
- Generators in the competitive market shoulder the risk of building new power plants, bringing efficient, cost-effective generation to consumers.

Texas Has the Most Installed Wind Energy Capacity



States With Most Installed Wind Capacity (MW)



27% of the nation's installed wind generation capacity is located in Texas.

Source: American Wind Energy Association, 7/20/10 (www.awea.org/projects)

Advanced Metering Activities in Texas



- The approved deployment plan for **CenterPoint Energy** calls for installation of advanced meters over five years beginning in March 2009. In 2009, CenterPoint Energy received a Federal Smart Grid Investment Grant that enables the deployment to be completed by late 2012. Through year-end 2009, CenterPoint Energy installed 152,275 advanced meters, and another 700,000 meters have been installed through September 2010.
- **Oncor's** approved deployment plan initiated in late 2008 will have installation of advanced meters completed by the end of 2012. To date, Oncor has installed 1.3 million meters.
- The **AEP Texas** deployment plan was approved in December 2009 and installation of advanced meters will be completed by the end of 2013. As of September 30, 2010, AEP Texas has installed 116,383 meters

Benefits for Qualified Low-Income Customers: The System Benefit Fund



- The System Benefit Fund (SBF) was enacted as part of the Texas Electric Choice Act in 1999. It is intended to provide funding specifically for:
 - assistance to low-income customers through reduced electric rates;
 - weatherization programs; and
 - administrative funding.
- During the months of May through September, eligible low-income customers received a discount of up to 20 percent through the “LITE-UP Texas” electric discount program.



Web: AECT.net



Blog: AECTnet.wordpress.com



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