

Gulf Coast Power Association

1

FUTURE OF THE RETAIL ELECTRIC MARKET

COMMISSIONER KENNETH W. ANDERSON, JR.

OCTOBER 6, 2009

Outline

2

- **Topics to be covered:**
 - Recently adopted customer protection rules and 81st legislative session
 - Bill payment database
 - Disconnect moratorium
 - Enforcement focus on REP compliance

81ST Legislative Session

3

- Only two bills that directly impacted REPs passed this session – HB 1799 (information included on electric bills) and HB 1822 (use of common terms)
- The Commission initiated three rulemakings to implement those requirements – Project Nos. 37070 (common electric terms), 37214 (customer disclosures), and 37215 (common telecommunications terms)

Rules Adopted

4

- **REP Certification:**
 - The amended rule classifies REPs as “investment grade” or “non-investment grade”
 - ✦ Investment grade refers to a REP or guarantor with:
 - A credit rating of at least “Baa3” from Moody’s, “BBB-” from Standard and Poor’s or Fitch, or “BBB” from A.M. Best; or
 - Tangible net worth of \$100 million is comprised of shareholder’s equity, less intangible assets other than goodwill, excluding power contracts and financial instruments used as supply hedges.
 - Non-investment grade includes all REPs that do not qualify under the two definitions above

REP Certification

5

- A guarantor relied upon by the REP to provide investment-grade or tangible net worth must be either:
 - ✦ An affiliate of the REP and has executed and maintains the standard form guaranty agreement approved by the PUC;
 - ✦ One or more persons that are affiliates of the REP that has executed the standard form guaranty agreement;
 - ✦ A financial institution with an investment-grade credit rating; or
 - ✦ A provider of wholesale power to the REP that also provides pervasive credit support to the REP.

REP Certification

6

- **Some of the major differences between the previous rule and the newly adopted rule include:**
 - Financial requirements to enter the market and ongoing capital requirements;
 - Protection of customer deposits and advanced payments;
 - Exclusion of principals of a previous REP that caused a POLR event;
 - Technical and managerial experience; and
 - Annual reports for non-investment grade REPs with increased requirements, including audited financials.

REP Certification

7

- To ensure that the requirements were not too overly burdensome on existing REPs, the Commission has separate reporting requirements for existing REPs with investment grade status
 - REPs must initially provide documentation indicating that the REPs or their guarantors maintain an “investment grade” status, but are exempt from most of the biannual reporting requirements

Providers of Last Resort

8

- **Some of the major changes in the new rule:**
 - Reclassification of REPs as either voluntary retail electric providers (VREPs) or large service providers (LSPs);
 - New POLR rates; and
 - Annual reports.

Expedited Switch

9

- **Some of the advantages to customers include:**
 - Switching to a new REP in a matter of days (up to seven business days); and
 - A standard switch is free of charge.
- **TDUs will be allowed to include expenses associated with the standard switches in a regulatory asset or in the company's application for an advanced metering surcharge**
- **When advanced meters are fully deployed, the need for this rule is diminished**

REP Disclosure

10

- **The new rule requires:**
 - Greater clarity in the distinction between variable, indexed, and fixed rate products;
 - Clearly worded terms of service and electricity fact labels;
 - Notice to customers between 14 and 45 days prior to expiration of a contract; and
 - No early termination fee if contract is terminated within 14 days of expiration.

HB 1822

11

- **This legislation will require some changes to the newly adopted rule such as:**
 - A provision requiring 30 to 60 days notice prior to expiration of a contract; and
 - The inclusion of the expiration date of the contract on each monthly bill.

Bill Payment Database

12

- **The database could be used to institute a hard disconnect policy**
 - A customer would be prevented from switching to a new REP until the current REP receives payment for all delinquent bills
 - Some of the anticipated benefits include:
 - ✦ A likely reduction in the bad debt incurred by REPs;
 - ✦ A potential for less responsibility on the customer to obtain prior bill payment history possibly from multiple REPs; and
 - ✦ Hopefully, a smoother transition if a POLR event were to occur.

Bill Payment Database

13

- Authority to implement the policy under PURA § 39.101(e)
- My suggestion to staff is to explore options for developing a voluntary private database
 - One issue likely to arise is the sharing of customer information between REPs
 - Could the customer consent to the information being provided to a gaining REP?
 - Another issue is how the database will be funded?

Disconnection of Electric Service & Deferred Payment Plans

14

- Project is in response to two petitions filed by Representative Sylvester Turner, AARP, Texas Legal Services Center, and Texas ROSE
- Staff held its first workshop on August 31
- Second workshop will be held on November 20
- Staff issued a list of questions under Project No. 36131

Meter Tampering

15

- **Staff is working on a rulemaking to deter meter tampering**
- **The proposal for publication will be discussed at the October 22 Open Meeting**

Enforcement

16

- **Expected that the Commission's Oversight & Enforcement Division will put more emphasis on compliance by retail electric providers with the Commission's customer protection rules**

Contact Information

17

Kenneth W. Anderson, Jr.

512-936-7005

kenneth.anderson@puc.state.tx.us