

TARC Annual Meeting

Donna L. Nelson, Commissioner
Public Utility Commission
October 3, 2008

Governor's Competitiveness Council

- Governor Perry appointed a 29 member Council in November of 2007 to study competitiveness
- Council was comprised of leaders from the private sector—all major growth industries—and leaders from the state agencies that affect the economic strength of the state and its businesses
 - Broad group of industry leaders, from Dell to Texas Instruments to Luminant Energy
 - Broad group of agency leaders, from TEA to TWC to PUC, RRC, and TCEQ

Governor's Competitiveness Report

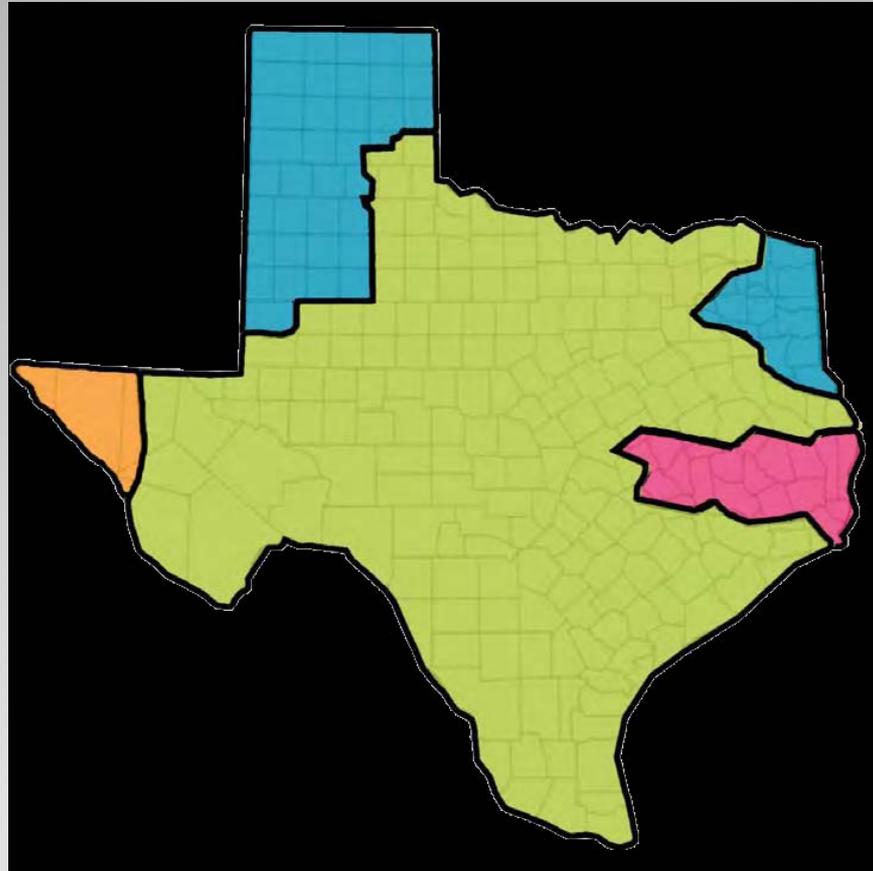
- Council presented Governor with Competitiveness Report on August 6, 2008
- The Report studied the six fastest growing clusters, including Energy and Petrochemical
 - The Report looks at what businesses in Texas need to succeed in a global economy
 - It covers the following critical areas: talent development (workforce and education), innovation, infrastructure, resources, and governance
- Because of the Council's work, the Governor intends to evaluate all legislation to determine if it makes the state more or less competitive

Texas State Energy Plan

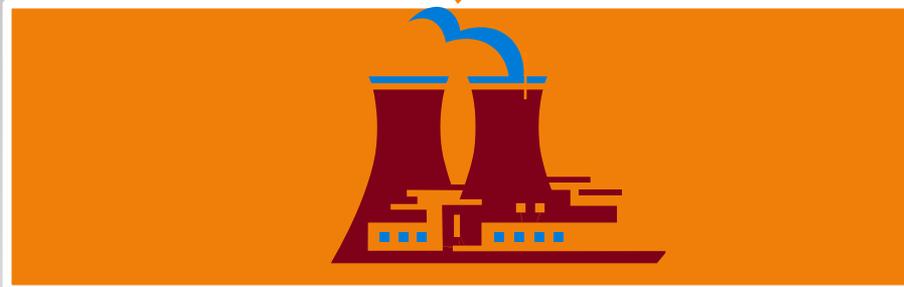
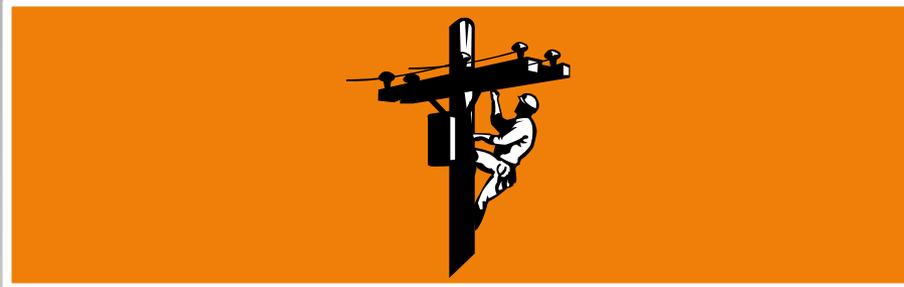
- Council also presented Governor with Texas State Energy Plan on August 6, 2008
- The Energy Plan focused on keeping a strong energy market in Texas
 - to support the growth of the state and
 - to ensure that Texas businesses remain or become more competitive in a global economy
- The Plan includes recommendations in the areas of generation, transmission and distribution, retail, energy efficiency and demand side management, and governance

The Texas Electric Market

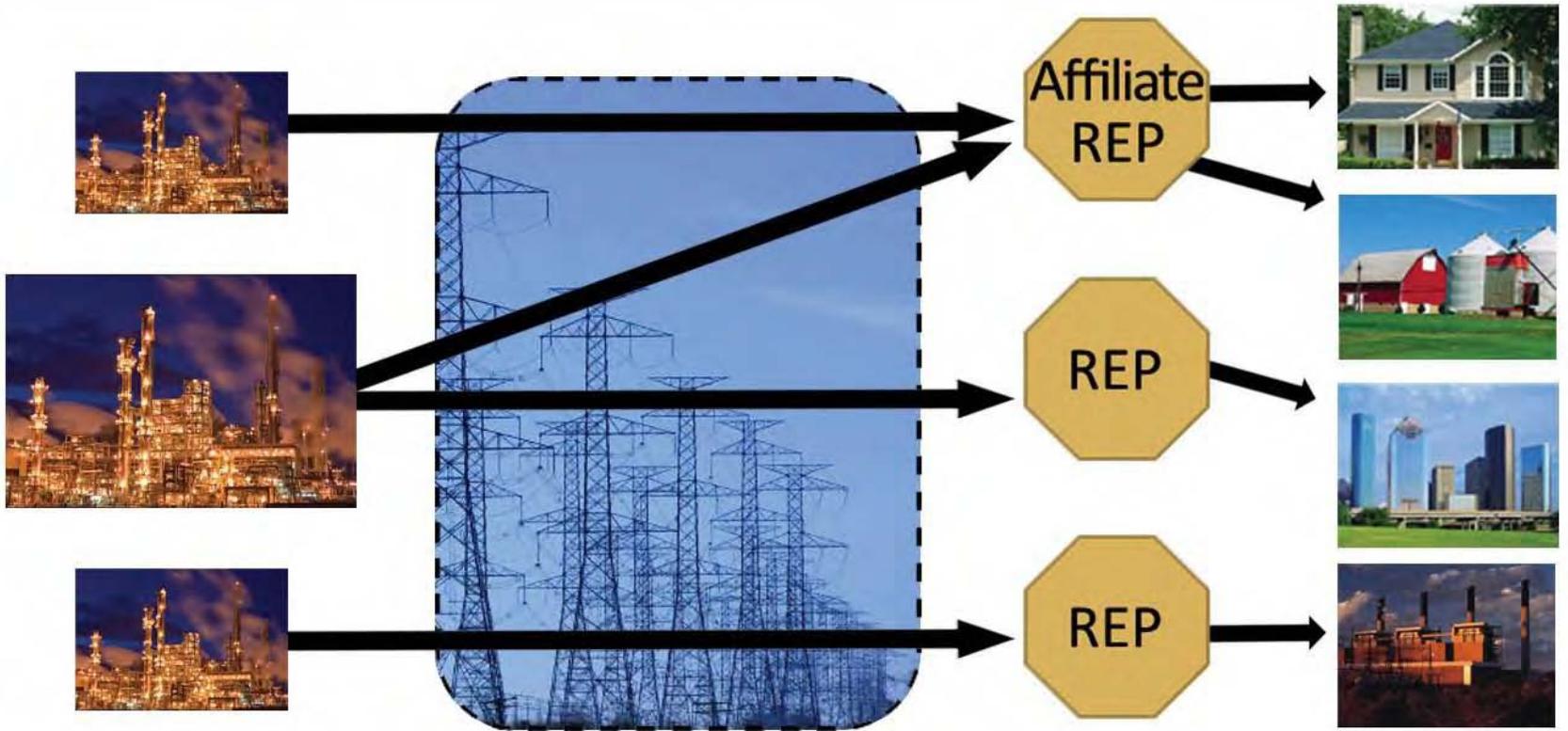
- Texas electric market like no other
 - Majority of Texans live in the area served by the Electric Reliability Council of Texas
 - ERCOT lies entirely within the state boundaries
 - Public Utility Commission oversees the electric market in Texas – FERC has limited jurisdiction
- Texas opened a portion of the wholesale electric market to competition in 1995
- Texas opened all of the wholesale and retail electric markets located within ERCOT to competition in 2002



The Texas Electric Market



The Texas Electric Market: Regulated Areas



The Texas Electric Market: Competitive Areas

Is the competitive
retail electric
market a success?

What the press says?

Star-Telegram

Survey: Many officials are foreseeing re-regulation

By R.A. DYER

Fort Worth Star-Telegram

September 21, 2007

Deregulation: Raw deal for power users

11:21 PM CDT on Friday, July 13, 2007

By GARY REAVES / WFAA-TV

How do you measure success?

DEREGULATION DEBATE

Many Texas consumers feel competition in the state's energy markets has been a costly failure

By TOM FOWLER and JANET ELLIOTT Copyright 2007
Houston Chronicle

Oct. 8, 2007, 7:15AM

When Texas lawmakers agreed to open the state's power markets to competition back in 1999, one promise was on the tip of many tongues — lower prices.

"Competition in the electric industry will benefit Texans by reducing monthly rates and offering consumers more choices about the power they use," then-Gov. George W. Bush said at the time.

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Eight years later, many consumers are calling deregulation just that — a failed waste of time.

How do you measure success?

Number of competitors and offerings?

TDU Area	No. of REPs	No. of Products
AEP - TCC	27	92
AEP - TNC	28	91
Center Point	26	92
Oncor	27	95
TNMP	25	84

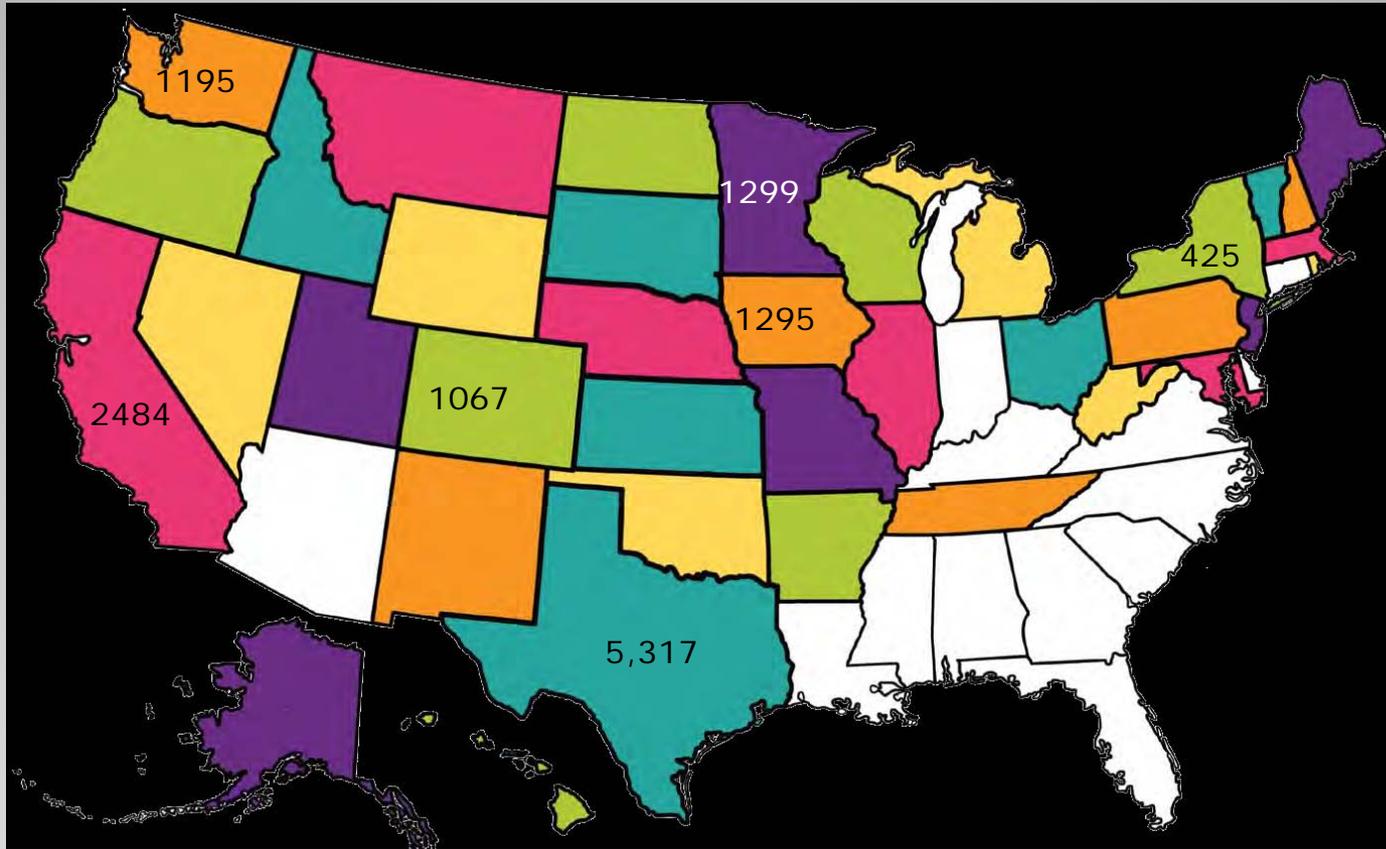
How do you measure success?

Investment in
infrastructure since the
opening of the retail and
wholesale markets?

\$20-25 billion

How do you measure success?

Installed wind capacity?



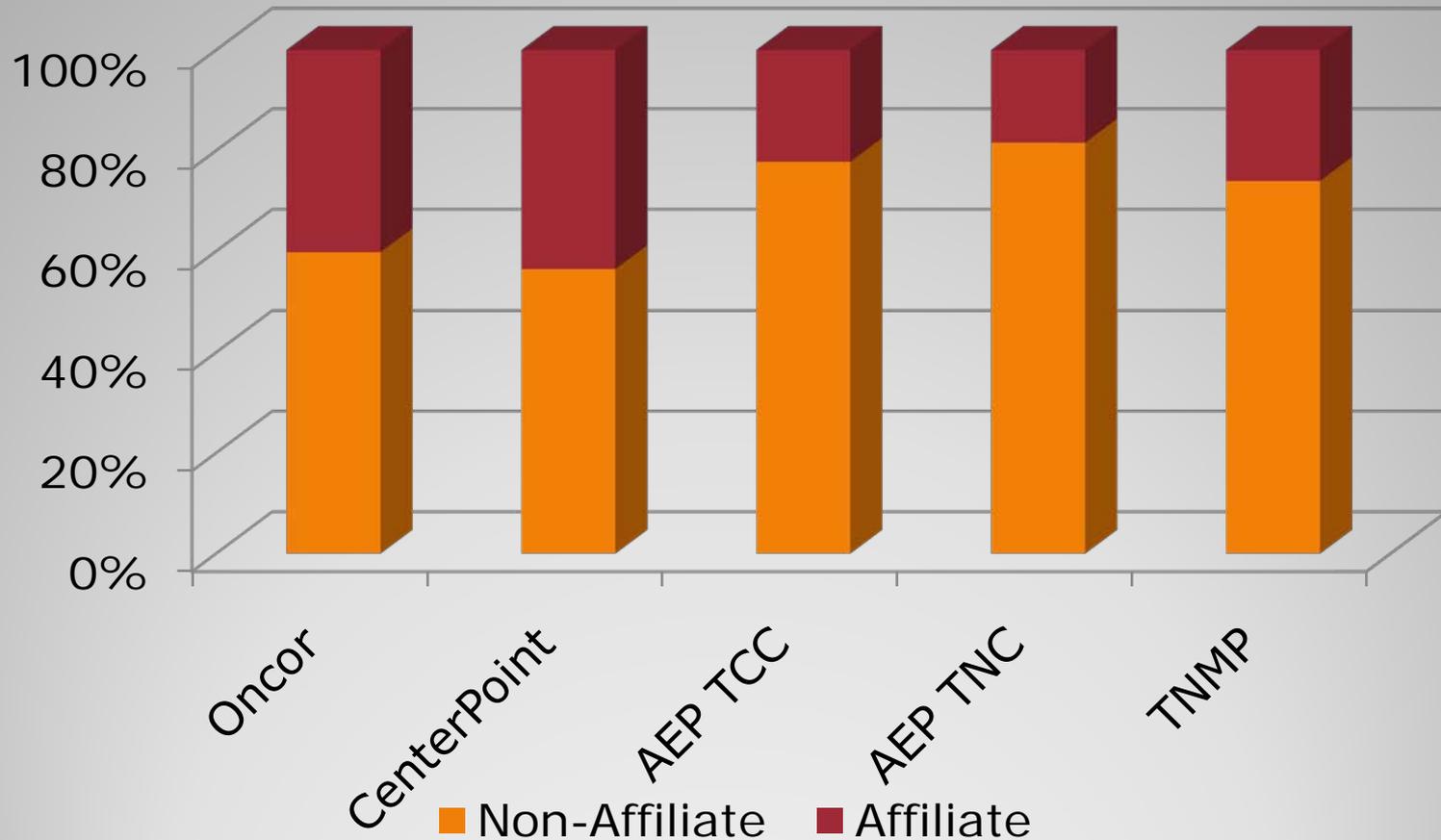
How do you measure success?

Prices since the opening of the retail electric market?

Wire Co.	Price	REP	K Type	K Term	Reg'd rate	% Inc.
AEPC	13.1	StarTex	Fixed	6-mo	9.6	36%
AEPN	10.5	Commerce	Fixed	12-mo	10.0	5%
TNMP	12.5	StarTex	Var.	1-mo	10.6	18%
Centerpt	12.7	StarTex	Fixed	7-mo	10.4	22%
Oncor	11.8	StarTex	Fixed	7-mo	9.7	22%

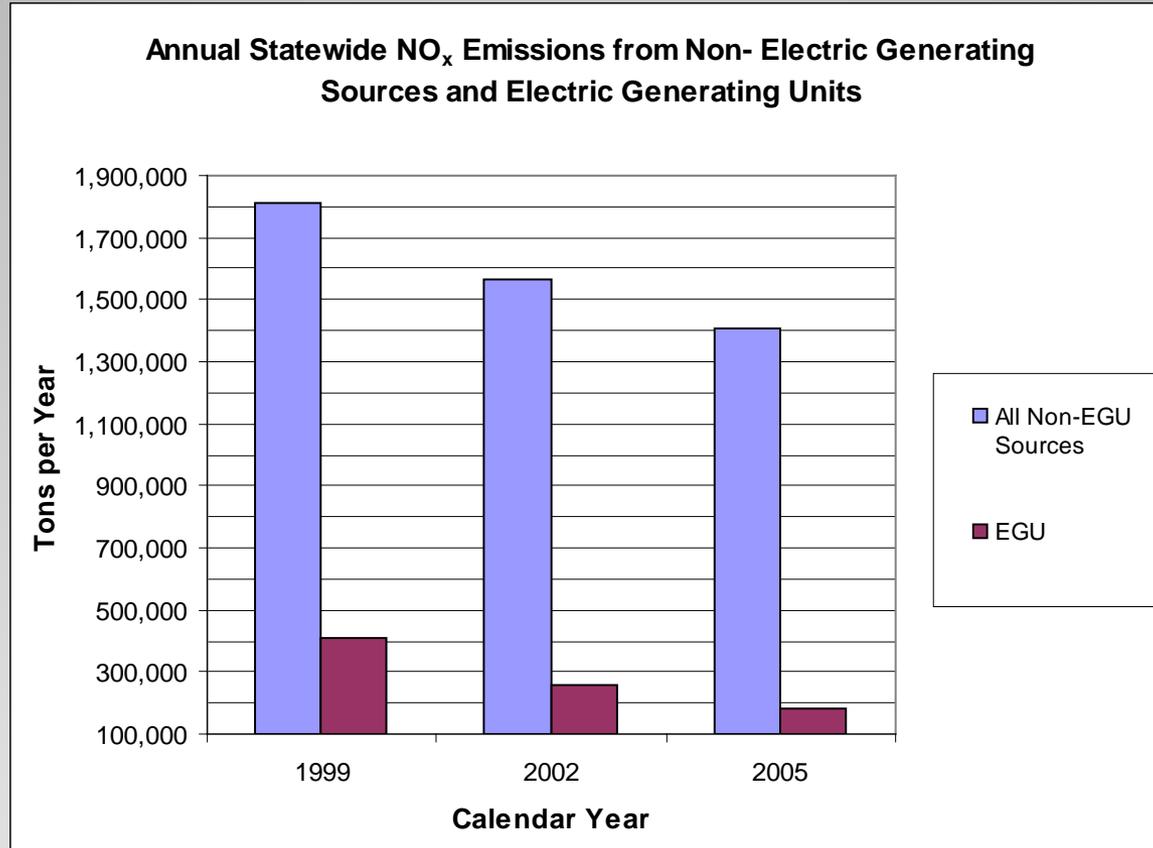
How do you measure success?

Customer switching rates?



How do you measure success?

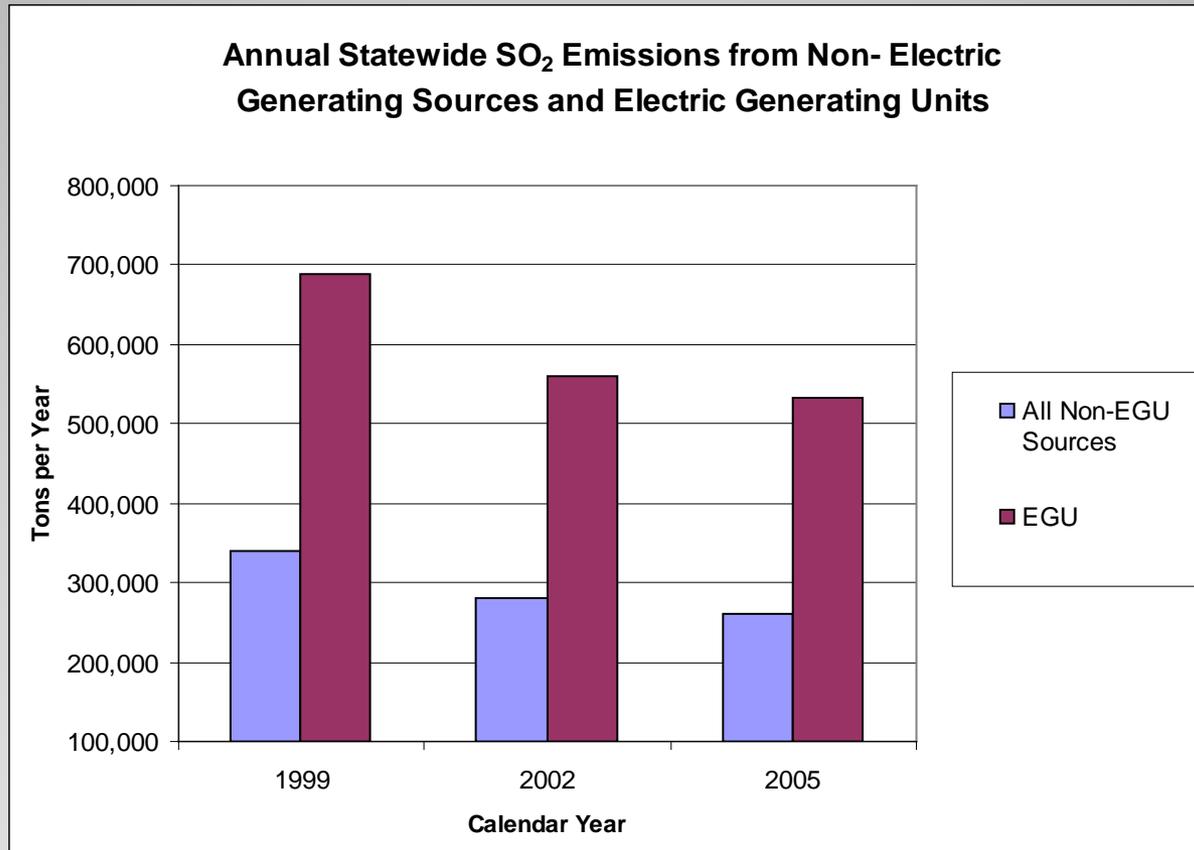
Reduction in NO_x Emissions?



Source: Texas Commission on Environmental Quality

How do you measure success?

Reduction in SO₂ Emissions?



Source: Texas Commission on Environmental Quality

How do you measure success?

Council Recommendations:

Wholesale Market Recommendations

- State should have incentives in place, limited in scope and time, to encourage further deployment of solar
 - Texas Department of Housing and Community Affairs should offer additional points to applicants who install solar panels and other solar products on housing available to those of limited income
 - Texas should provide a sales tax exemption for the purchase and installation of solar generation systems
- Texas should identify and resolve barriers to accelerating development of in-state natural gas assets



Wholesale Market Recommendations

- Instead of re-regulation, we need more generation diversity to lessen Texas' reliance on natural gas
- Need to find ways to encourage the deployment of fuels like nuclear, solar, biomass, and other sources that will lessen that dependence
- Texas needs to develop a clean coal technology using its vast resources of lignite
 - State should create a state innovation prize, funded with private/public dollars, for the development of a clean coal technology that use Texas lignite
 - State should provide sales tax exemption for equipment used to capture and store carbon dioxide from facilities using Texas lignite

Wholesale Market Recommendations

- Potential carbon legislation will cost Texans more than those living in other states
 - The State should form a public/private partnership to educate the public on the cost of carbon regulation to Texans. The partnership should inform its work by conducting a study highlighting the cost versus the environmental benefit
 - State policy makers should bring a Texas perspective to federal carbon policy debates and educate Washington on the economic value of Texas' energy production to the nation

Energy Efficiency & Demand Response Recommendations

- The state should require TDUs to deploy advanced meters, with an appropriate cost recovery mechanism
- The PUC should ensure that ERCOT cost-effectively ensures that all retail customers have the option to be settled on 15-minute increments
- If the PUC study indicates a greater potential for cost-effective energy efficiency reductions, Texas should raise the energy efficiency goals to the higher levels contemplated under current law
- PUC should incorporate EE/DR in its educational campaign

Retail Market Recommendations

- The state should resist efforts to re-regulate the market and instead adopt the recommendations in this plan
- The PUC should revisit certification standards for REPs and evaluate whether current standards are adequate given the significant changes that have transpired since the opening of the retail market
- The state should reinstitute funding for the PUC's customer education efforts, and the Governor should direct the PUC to incorporate the topics addressed in this plan into the educational campaign

Workforce Recommendations

- Texas should continue to invest in programs designed to generate interest in math and science
- Texas needs to increase high school completion rates and ensure that high school grads are college- and work-force ready
- Texas needs to increase the number of postsecondary graduates with the knowledge and skills that meet industry standards

Workforce Recommendations

- Texas should improve the flexibility of its technical education and training system in response to industry needs across the state
- The state should continue the Skills Development Fund, which supports training programs that respond directly to the workforce needs to Texas employers

Workforce Recommendations

- The energy industry should look to the military and declining industries to expand its workforce
- The state should create a Workforce Supply-Demand database
- Texas should establish a Texas Center for Workforce Innovation and Competitiveness to promote and support the skills pipeline

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