

Regulatory Update

TPPA Annual Meeting

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TPPA

Regulatory Update Topics

- PUC Projects Responding to Recent Legislation
 - Renewables
 - Merger/Sale Review by PUC
 - Customer Protection Issues
 - Energy Efficiency
- Low-income Discount
- TXU Merger Review
- TXU Market Power Case
- Entergy Transition to Competition Case
- Texas Regional Entity Update
- Competitive Renewable Energy Zones (CREZs)

Future PUC Rulemakings – Implement Recent Legislation

- Renewables (HB-1090)
 - Industrial opt-out
 - Treatment of voluntary programs
 - Alternate compliance payment (instead of applying RECs)
 - Encourage non-wind resources
- Merger/Sale Review by PUC (HB-624, HB-3693)
 - Prospective, not retroactive
 - Requires public interest findings before approving merger or sale of at least 50 percent of an electric utility or TDU
- Customer Protection Issues (proposed in SB-482)
 - Disconnection moratorium during extreme weather
 - Promotion of customer choice (target “sticky” customers)
- Energy Efficiency (HB-3693)
 - Cost recovery for utilities meeting increased goals
 - Interconnection, net metering
 - Demand response: expand on Emergency Interruptible Load Service rule adopted in March

Low-income Discount Reinstated

- Legislature appropriated \$30 million for 2007 summer discounts to low-income residential customers in areas with retail choice
- Funded through System Benefit Fund collections of 65¢/MWh, previously diverted to general revenue
- Discount of at least 12%, estimated at \$25 - \$30 per month
- Applies to July - October bills for June – September usage
- May require “double discount” for August bills if Retail Electric Providers cannot implement in June
- Additional funding to resume discounts for summers of 2008 and 2009
- Does not apply to MOUs or Coops

TXU Merger Review

- Utility mergers typically reviewed by PUC after closing. Texas Energy Future Holdings (KKR, TPG, and others) voluntarily filed “binding commitments” regarding buyout of TXU
- Proposal filed in April addresses: separation of business units (Luminant, Oncor, TXU Energy) including separate boards, buildings, etc., no extra debt for regulated entity, increase spending on efficiency programs, implement 15% rate reduction, file general rate review in 2008, and more
- Scheduled for formal hearing in October

TXU Market Power Case

- PUC seeking \$210 million in penalties against TXU for alleged market power abuse in 2005, \$70 million of that in refunds
- Based on Independent Market Monitor report indicating economic withholding in the balancing energy market
- PUC determined it does not have authority to order a refund paid to ERCOT (for distribution) related to a finding of market power abuse
- However, PUC may order refunds where the parties have reached an agreement to make refunds
- PUC could request attorney general's office to seek civil penalties, including damages, which could take the form of refunds
- Legislative proposal to provide PUC refund authority failed to pass
- Notice of Violation filed in March
- TXU has denied any wrongdoing and requested a hearing
- Preliminary order issued June 27 outlining issues to be addressed by State Office of Administrative Hearings
- Procedural calls for a hearing in April, 2008

Entergy Transition to Competition Case

- Entergy proposing to integrate its east Texas system into ERCOT as best option to enable retail open access
- Filing required by House Bill 1567 (2005)
- May hearing abated due to discovery disputes
- Hearing before PUC commissioners rescheduled to begin on July 25
- Numerous intervenors, mostly concerned about costs

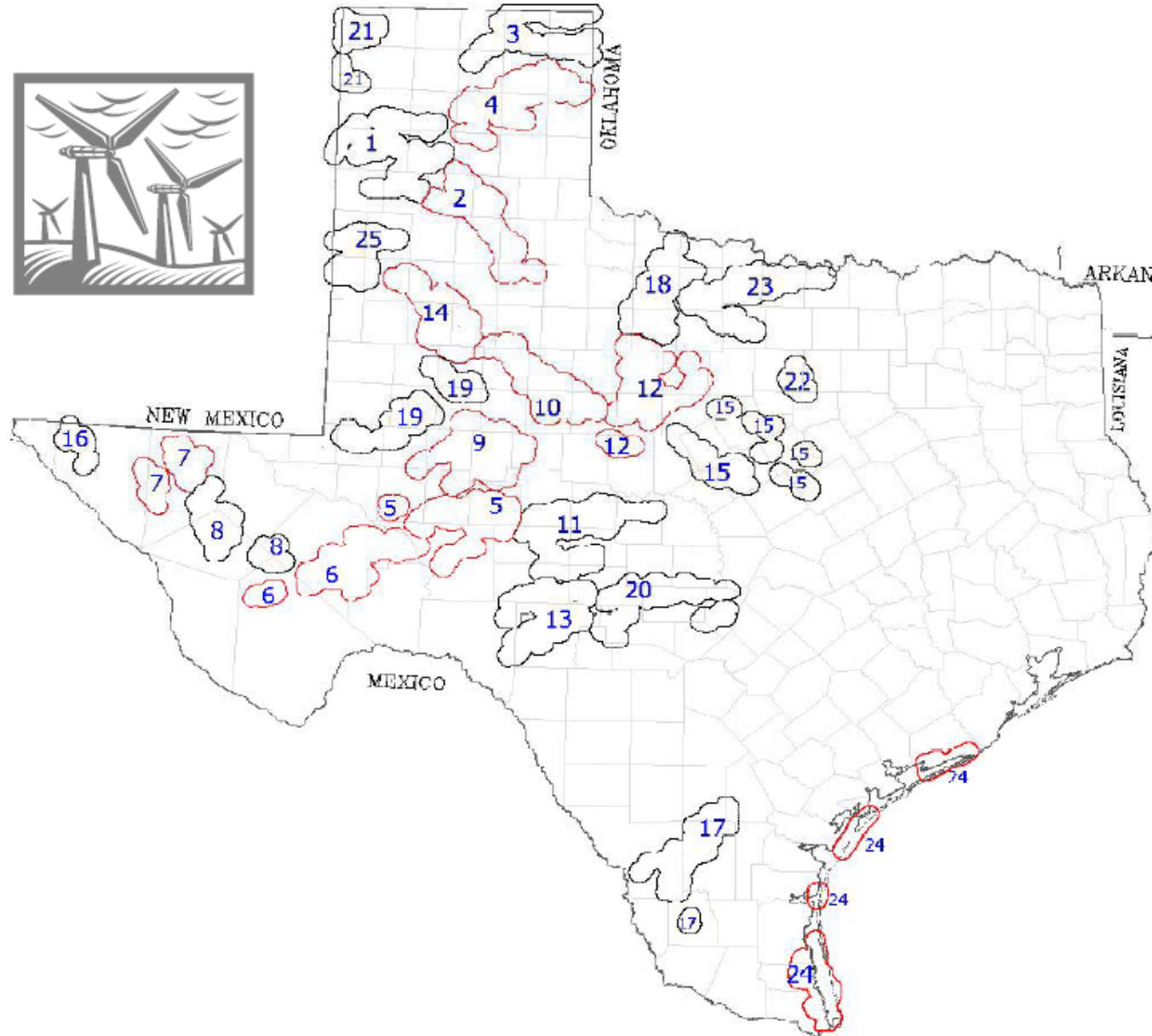
Texas Regional Entity Update

- Required by federal Energy Policy Act of 2005
- ERCOT bylaws revision approved by ERCOT Board on May 16 and by ERCOT corporate members on June 14 via email ballot
- Requires PUC approval; comment period in August
- Enables the creation and operation of the TRE as an independent division of ERCOT
- TRE will perform investigatory, enforcement, and compliance functions pursuant to the Delegation Agreement with the North American Electric Reliability Corporation (NERC), which has been certified by FERC as the national Electric Reliability Organization (ERO)
- TRE hired an interim Chief Compliance Officer
- TRE establishing procedures for regional standards committee; two standing representatives per ERCOT segment, selected in same manner as other ERCOT committees
- NERC standards enforcement beginning June, 2007

Competitive Renewable Energy Zones

- Required by Senate Bill 20 (2005)
 - Addresses “chicken and egg” problem with wind farms and transmission lines
 - PUC directed to designate areas with sufficient renewable potential, considering financial commitment of developers
 - Also required to develop plan to construct necessary transmission capacity
- ERCOT studies show potential zones and rough transmission requirements
- Other proposals from various parties,

Proposed CREZs



Major Issues in CREZ Docket

- Which CREZs to designate?
 - For what MW amounts?
 - For Panhandle areas, ERCOT or SPP?
 - How to define boundaries?
- Transmission plan:
 - How detailed?
 - How ambitious?

Procedural Schedule

Six stages outlined with approximate dates:

1. Order designating CREZs: boundaries, power regions, expected transfer capability, developers, etc. (mid-August 2007)
2. CREZ Transmission Optimization Study (January 2008)
3. PUC selects parties responsible for various transmission construction projects (February 2008)
4. CCN development and submission (December 2008 – February 2009)
5. CCN approvals (June 2009 – August 2009)
6. Construction (dates to be determined)

Questions

