

Scenario 11

Market Responsive Pricing Model

Procurement Working Group Meeting

July 26, 2004

Market Design Principles

Competitive market forces are more effective than economic regulation in controlling the cost of generating electricity

- Providing the electric service attributes (e.g term, pricing level, price certainty) appropriate for different customer classes;
- Establishing prices that facilitate efficient consumption decisions by consumers;
- Ensuring that customers have a real choice of providers and are not slammed; and
- Ensuring that any default price has an adjustment mechanism that links the retail price to the wholesale price.

Supply Procurement

Supply procurement solely at the discretion of the default provider (e.g. auction, RFP, bilateral contract, etc.)



- Competitive forces will determine the appropriate price for goods and services offered by competitive suppliers
- A default price that adjusts to prevailing market prices will allow the default provider to recover its procurement costs and to offer a default price that is complementary to a competitive market place
- Results in a robust, sustainable retail market

Default Design Characteristics

Desires of Individual Market

Participants:

- *Customers:* pricing, innovation, etc.
- *Alternate Retail Electric Suppliers:* ongoing opportunity to participate in the market
- *Default Providers:* adequate compensation for default risk
- *Wholesale Electric Suppliers:* Multiple suppliers enter the market

Key Default Design Features

- **Large Customers**
 - Hourly Priced Default Service
- **Small Customers**
 - Market Responsive Pricing

Large Customer Model

Default Service for Large Customers

Design Features:

- Default product should not be a substitute for, nor hinder the development of a competitive market
- Switching restrictions should not impede customer choice
- Default pricing that is responsive to market forces

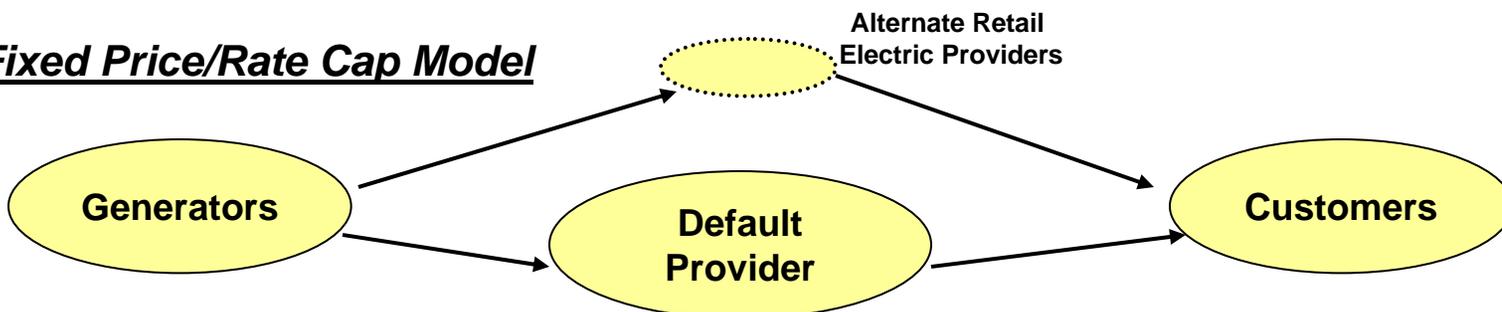
Results in:

- Vigorous customer choice/competition

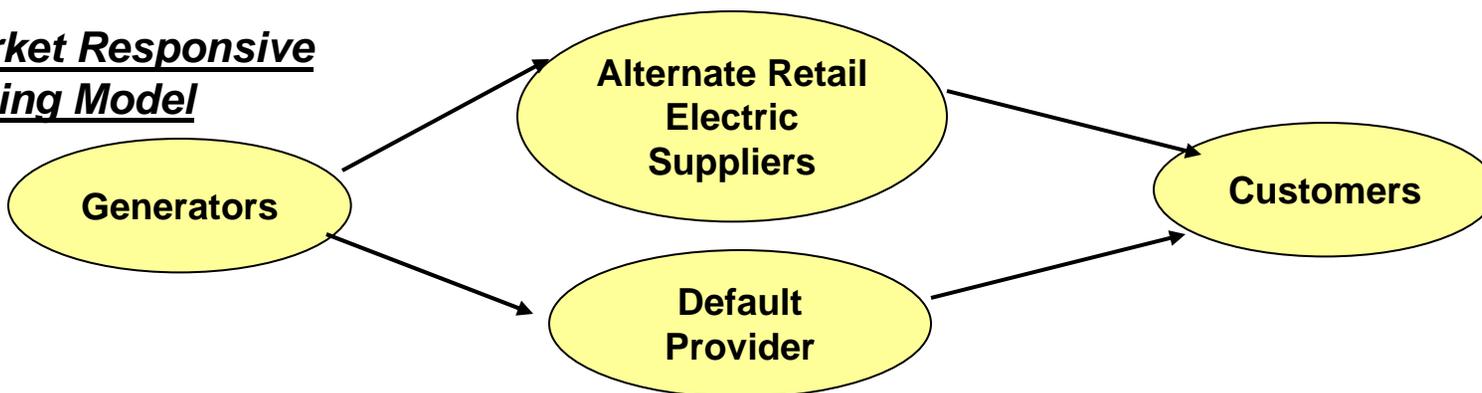
Mass Market Model

Default Service for Mass Markets

Fixed Price/Rate Cap Model



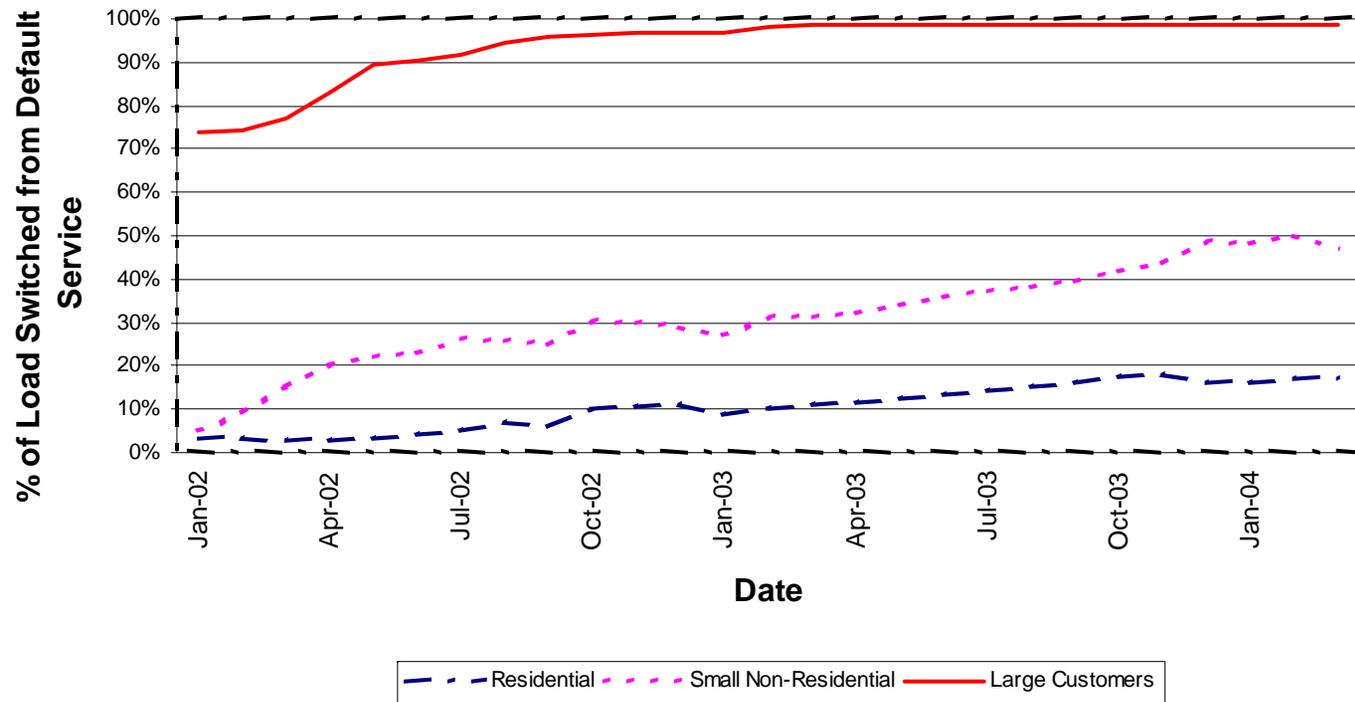
Market Responsive Pricing Model



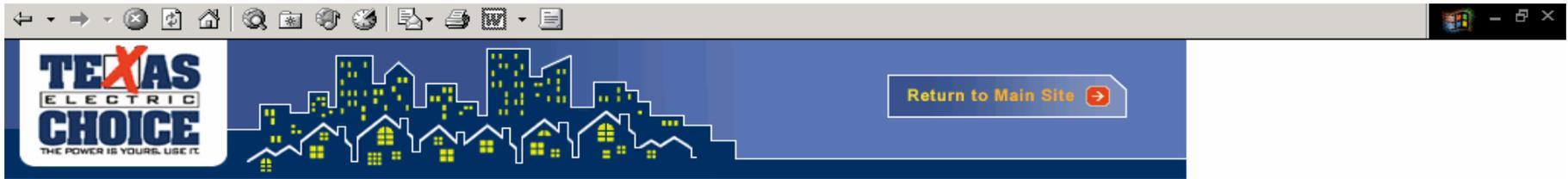
Number of Providers Offering Competitive Electric Service to Electric Customers

	Market Responsive Pricing Model Texas (in Houston and Dallas Areas)	Fixed Price/Rate Cap Model Duquesne (PA) Light Company
Start of Customer Choice	9 Providers	15 Providers
October 2003	10 Providers	4 Providers

Texas Switching Statistics



Note: Switching statistics for residential and small non-residential represent ERCOT-wide data and large customers represent Centerpoint Service Territory only.



Cost per Month estimates are based on electricity usage of 1,000 kWh per month and are inclusive of fixed and variable charges.

Electricity		Cost Per Month	Save First Year	Min. Term (Mo.)	Eco Info	Facts Label and Terms	Average Price per kWh (1000 kWh)
	YOUR AFFILIATE REP IS: Reliant Energy Price to Beat	\$111	0	1		This is the basis for comparison.	\$0.111/kWh
Choose	Cirro Energy Residential Electric Service	\$106	5%	12		Terms of Service ; Facts Label	\$0.106/kWh
Choose	Green Mountain Energy Company Month-to-Month Plan	\$117	None (-5%)	1		Terms of Service ; Facts Label	\$0.1166/kWh
Choose	Green Mountain Energy Company Reliable Rate Plan	\$119	None (-7%)	12		Terms of Service ; Facts Label	\$0.1186/kWh
Choose	Direct Energy, LP Electricity	\$104	6%	12		Terms of Service ; Facts Label	\$0.104/kWh
Choose	TXU Energy Services Electricity	\$100	10%	1		Terms of Service ; Facts Label	\$0.1/kWh
Choose	ECONergy Energy Company, Inc. ECONergy Variable Rate Plan	\$97	Variable	12		Terms of Service ; Facts Label	\$0.0969/kWh
Choose	Green Mountain Energy Company 100% Wind Plan	\$121	None (-9%)	1		Terms of Service ; Facts Label	\$0.1206/kWh
Choose	Gexa Energy Corp Power Plan	\$96	14%	1		Terms of Service ; Facts Label	\$0.096/kWh
Choose	Reliant Energy Price to Beat	\$111	0%	1		Terms of Service ; Facts Label	\$0.111/kWh
Choose	ECONergy Energy Company, Inc. ECONergy Fixed Rate Plan	\$97	13%	12		Terms of Service ; Facts Label	\$0.0969/kWh
Choose	Entergy Solutions Ltd. Savings Advantage Plan	\$102	8%	0		Terms of Service ; Facts Label	\$0.1015/kWh
Choose	Amigo Energy Residential Services	\$95	14%	12		Terms of Service ; Facts Label	\$0.0952/kWh
Choose	First Choice Power, Inc. Easy Price Plan	\$103	7%	1		Terms of Service ; Facts Label	\$0.103/kWh
Choose	ACN Energy, Inc. Electricity	\$111	0%	1		Terms of Service ; Facts Label	\$0.11085/kWh

If you have questions about how to choose a Retail Electric Provider, please call toll-free 1-866-PWR-4-TEX (1-866-797-4839). For questions about a particular REP's offer or pricing, please contact that REP directly.

Default Service for Mass Markets

Design Features	Market Responsive Price Model	Auction Model	Rate Cap Model
Provides customers reasonable price protection while allowing ongoing opportunities for competitors to participate in the market	<input checked="" type="checkbox"/>	X	X
Switching restrictions should not impede customer choice	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
A default price responsive to market forces	<input checked="" type="checkbox"/>	X	X
Vigorous customer choice/competition	<input checked="" type="checkbox"/>	X	X

Benefits of Market Responsive Price Model

- Provides customers the electric attributes they desire for their electric service (price level, price certainty, term, etc.)
- Mitigates default providers' risk by allowing default prices to reflect changes in wholesale price
- Provides certainty to alternate retail electric suppliers that default prices will not become below market

Therefore,

- Creates a market design wherein robust, sustainable competition will exist