Good Company Associates / Texas Advanced Metering Coalition

Public Utility Commission of Texas

Competitive Metering Workshop

Docket No. 26359

Sept. 17, 2002

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THE KEY QUESTION:

- Which will help to make the Texas electricity market work?
  - COMPETITIVE METERING? (Competition was seen merely as a means to an end.)
  - ADVANCED METERING? (It is the catalyst for new products and services that will promote market efficiency.)

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- LEGISLATIVE INTENT
  - In 1999, other markets had very little experience with competitive metering.
  - Competitive metering was promoted as a logical and inevitable component of electricity market restructuring
  - "Competitive metering" and "advanced metering" became synonymous
    - Input to SB7 process muddled the two terms

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- ADVANCED METERING enables time-based electricity rates
- Price signals = Demand elasticity
- This helps make the market work
  - Counterweight to supply-side market power -- demand participation reduces opportunities for market manipulation

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- ADVANCED METERING Benefits:
  - Expands the playing field for competition among REPs
    - New market entrants unlikely to win a price war based entirely on flat rates
  - Catalyst for new products and services (Old meters = black rotary phone)
    - Energy management technologies
    - Gateway systems

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- ADVANCED METERING
  Demand participation benefits:
  - Reduces wholesale price volatility
    - Elasticity helps tame the "hockey stick"
    - 20% TOU participation can = 5% overall reduction in wholesale prices (Hirst)
  - Part of system reliability portfolio
    - Real-time pricing and critical-peak pricing are demand response resources
    - Measures DLC contributions

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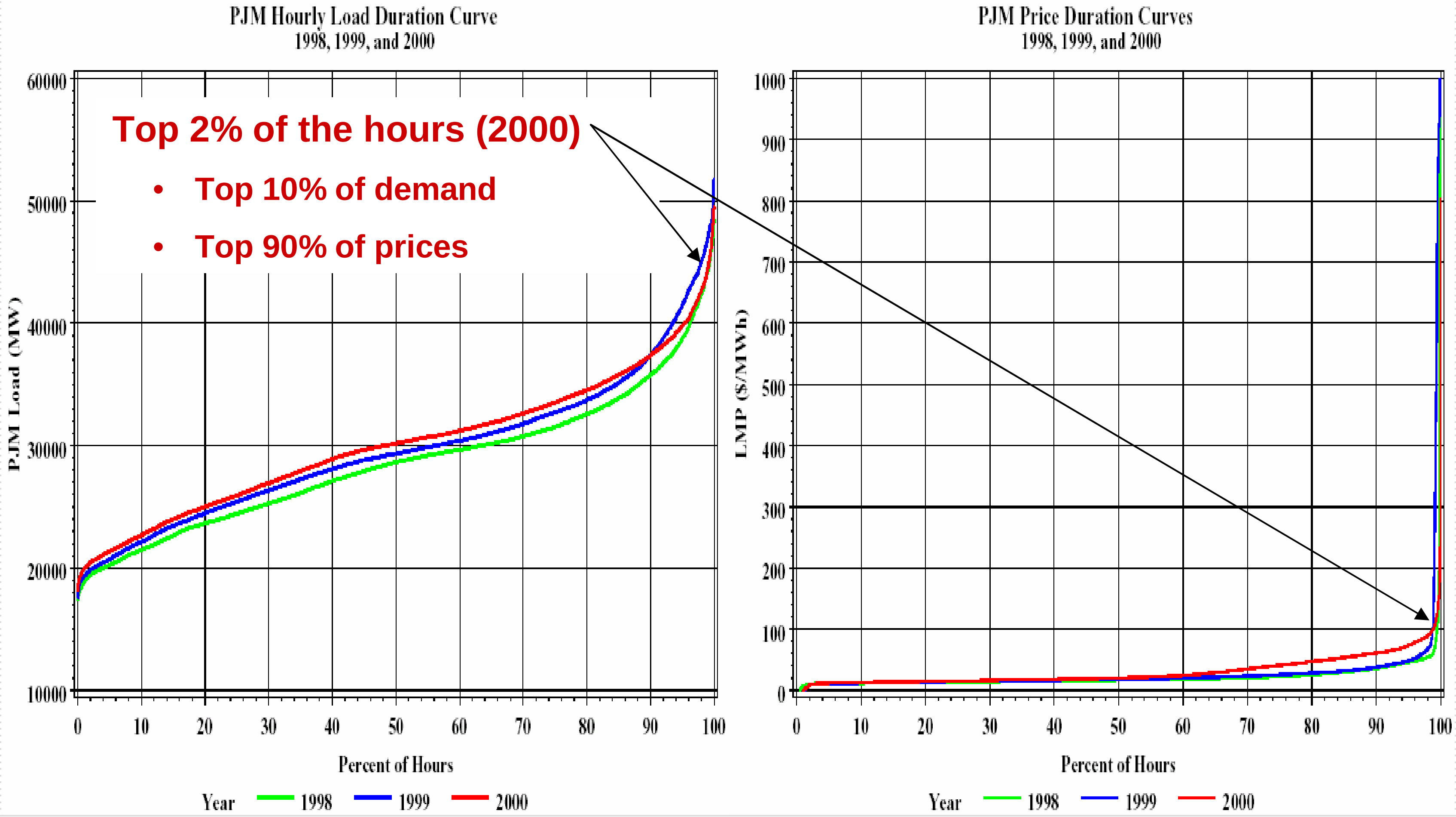

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- ADVANCED METERING
  Demand participation benefits:
  - Improves asset utilization
    - Increases the 53% ERCOT capacity factor
    - Extends life of existing infrastructure
  - Environmentally responsible resource
    - New system capacity with zero emissions
    - Reduces reliance on peakers, especially during ozone action days

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- ADVANCED METERING
  Automatic meter reading (AMR) benefits:
  - Timely access to consumption data improves customer participation levels
  - Reduced meter reading costs
  - Sophisticated outage detection
  - Theft & tamper detection
  - Unaccounted for energy optimization
  - Reduced truck traffic & pollution

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- MYTH: Small customers will not respond to price signals
  - Puget Sound Energy
    - <5% opt-out rate; >90% favorable rate
    - 5% peak reductions; ~4% usage reductions
  - Laredo Project (CSW)
    - 95% voluntary participation
    - 10% bill reductions
    - Demand drops averaged 1kw per household

SO……

- Advanced Metering
- Competitive Metering ?

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- Competitive Metering in other states:
  - California: market imploded
  - Pennsylvania: surrendered in August
  - Arizona, Virginia: more white flags
  - Georgia: disincentive to upgrades
    - Atlanta Gas Light killed AMR project
  - Massachusetts: pulled plug last minute
  - New York: reworking the model
    - NYSERDA financing TDU upgrades

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- Why Competitive Metering Won’t Reach Smaller Customers
  - Bad underlying economics:
    - Economy of scale
      - Installation costs increase by 6-8 times (from <$25 mass deployment to >$150 individual)
    - Chicken & egg with time-based rates
    - Splintered benefits (multiple entities)
    - Risk of stranded costs
      - Utilities enjoy longer amortization periods and more favorable borrowing rates
    - Added marketing costs ($50+ per customer)

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- The Advanced Metering picture in the current Texas Market
  - LaaRs and BULs (IDR): <5
  - LaaR/BUL Prospects (IDR): 50? 500?
  - >1MW C&I (IDR): 6,000
  - >200kw C&I (some IDR): 40,000
  - Small commercial (no IDR): 700,000
  - Residential (no IDR): 7,000,000

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- SB7 Competitive Metering Language
  - 150 words (from a total of 51,000)
  - Very little detail compared to overall electricity market structure
  - Indicates lack of experience from other states
  - Suggests PUC should have considerable flexibility in interpreting this phase of the law

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- SB7 Competitive Metering Language
  - Indeterminate start date for residential sector
    - Current & foreseeable market conditions compound the problem
      - CR market share declined in June & July in Oncor & Centerpoint service areas
      - Less than 3% in all but one service area
      - Will we ever reach 40%?
  - Legislative uncertainty begets market uncertainty
    - Uncertainty has killed the Texas advanced meter market since 1999

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- SB7 language forcing Commission to act for commercial sector
- Competitive metering for large (>1 MW) industrials may bring market benefits
  - They want it
  - Faster access to revenue data
  - Cheaper & better metering services
  - Enabler for dynamic price competition

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- Remember legislative intent
  - New technology, products & services will encourage market efficiency and creativity
    - Central goal of any industry deregulation
- Customers' opportunity to save money by responding to price signals should not be limited to large industrials

- Commission decisions:
  - Where should regulation end and competition begin?
    - What size customers?
    - Which metering functions?

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- To realize the vision of SB7:
  - Competition does not have to extend to the meter itself
  - Meters are just the catalyst/enabling technology
  - Plenty of room for competition at the wholesale level (advanced metering is not one size fits all)
  - TDSPs are most cost-effective entities to provide mass market meter upgrades
  - Let new competitive entities fill the void in technologies and energy management services that can transform the market

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- Competitive metering recommendations:
  - Design the market for large industrials to have a high probability of success
  - “Opt in” system
  - 1 MW eligibility threshold
  - Collect data to measure market success:
    - No. of active meter service providers
    - No. of customers opting in
    - No. of advanced meters installed competitively
    - No. of customers choosing time-based rates

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- Competitive metering recommendations:
  - TDSPs remain default providers:
    - For meter reading & information services during ERCOT transition
    - For large industrials not opting in
    - For <u>all</u> small customers
  - PUCT retains regulatory authority over TDSP metering services
    - Includes cost recovery approval for upgrades

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- Recommendations:
  - Open docket to define advanced metering properties and certify products for all customer classes
    - ANSI standards
  - ERCOT:
    - Prepare to transition profile system to accommodate actual consumption data from all customer categories

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- Recommendations:
  - ASAP begin requiring advanced meters on all new construction
    - C&I
    - Residential

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- Recommendations:
  - Establish timeline for phased installation of IDR meters down to 50 kw level in C&I sector

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- Recommendations:
  - Establish timeline for deployment of advanced meters for residential customers

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Thank you.

Good Company Associates

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