

ATTACHMENT A

HOW ELECTRIC INDUSTRY CHANGE WILL AFFECT YOU

This is a brief overview of the coming competitive electric industry in California. As more information becomes available, it will be updated. The most current version of this overview and a wealth of other information is on the California Public Utilities Commission Internet web site in the [Electric Restructuring](#) page.

Goals of a competitive electric industry:

- **consumer choice in electric services, and**
- **competition among utilities and other electricity generators to reduce electric rates in California. (Current electric rates are 30 to 50 percent higher than the national average.)**

Beginning January 1, 1998, consumers from all customer classes (residential, commercial, agricultural, industrial) will be able to buy electricity from either their current utility or another electricity supplier. The California Public Utilities Commission (CPUC) will soon decide whether to allow all consumers this choice on that date, or to first allow some consumers this choice and phase in all consumers over time. In any event, by 2002, all consumers will have choice of electricity supplier.

Pacific Gas & Electric (PG&E), Southern California Edison (Edison), and San Diego Gas & Electric (SDG&E) deliver 70 percent of the power in California. Current electric rates are 30 to 50 percent higher than the national average.

To improve customer choice and lower rates, the Legislature enacted, and Governor Wilson signed, Assembly Bill 1890 last year to make California's electric industry competitive. The CPUC is planning the four-year transition to this new competitive market. Competition will begin in 1998. The industry will be fully competitive by 2002.

PG&E, Edison, and SDG&E customers as well as customers of Southern California Water Company Bear Valley District, Kirkwood Gas and Electric, and the California customers of Sierra Pacific Power and PacifiCorp will be able to buy electric services from their current utility, neighboring utilities, municipal utilities, utilities from other states, or non-utility electricity suppliers. They can choose to buy only electricity from a different company, or electricity and service, or only service.

If you are a customer of one of these utilities, whether you decide to continue buying electricity from your current utility or choose to buy from another supplier, your utility will continue to transmit electricity to your home or business. But for the first time, you will be able to purchase that electricity from whatever company will give you the service options and prices you want.

The California Public Utilities Commission, working closely with the Federal Energy Regulatory Commission, utilities and other interested parties, will assure continued delivery of safe, reliable, and environmentally-sensitive electric service. The CPUC also will ensure fair competition and that residential and small commercial consumers are educated about the competitive electric industry and protected from unfair business practices.

MORE CUSTOMER CHOICE

- Whether you are a residential, commercial, agricultural or industrial customer, you will have more choices for purchasing electricity.
- If you don't want to buy electricity from another supplier, you can continue to buy electricity from your current utility. It's your choice.
- You can buy electricity from a company other than your current utility and have it delivered through the lines of your current utility.
- You may be able to contract with your city, county, an association, a broker or an aggregator to purchase electricity for you. Each entity offering electric service to residential and small business customers must register with the CPUC. And you can check to see if a company is registered before you do business with the company. You may wish to install a special meter so you can purchase and use electricity on an hourly basis, usually evenings and weekends, when it is least expensive. The daily prices will be in the newspaper or on the Internet.
- You can choose a pricing plan you want. Some suppliers may offer different rates for day and for night, or for different seasons.

LOWER ELECTRIC RATES

If you continue to buy electricity from your current utility, the CPUC will not allow the utility to charge you more than the rates in effect on June 10, 1996. *By law, utilities must reduce residential and small commercial electric rates by 10 percent on January 1, 1998.*

The Power Exchange (see page 4) will determine the price of electricity hourly or half/hourly according to demand for, and supply of, electricity. It will publish the price of electricity so consumers can shift their energy use to times when it is less expensive.

Every California utility will purchase electricity from a competitive spot market called the Power Exchange, so even consumers who choose to remain with their current utility should benefit from price reductions as they occur in the Power Exchange. Utility plants and other obligations will be paid off sooner, and at a reduced rate of return. This also will reduce rates by April 2002.

Current electric rates, in part, reimburse utilities for their costs of building power plants and buying electricity from independent power producers to serve their customers. The CPUC reviewed and approved these costs as reasonable, and authorized utilities to recover them in rates over many years. To ensure utilities recover these costs during the transition to a competitive electric industry, all utility customers will pay a *competition transition charge* - most of which will be collected through March 31, 2002.

Having everyone pay a competition transition charge is important. It means that residential and small commercial customers won't end up paying higher rates to make up revenue lost from customers who leave the utility system and choose service from a competing company.

OTHER ADVANTAGES OF A COMPETITIVE ELECTRIC INDUSTRY

- Electricity producers will not build generation facilities unless demand for electricity shows more facilities are needed.
- Electricity producers, including utilities, will have an incentive to operate as efficiently as possible so they can be competitive, remain financially viable, and earn a profit for their shareholders. Increased efficiency should produce lower electric rates in the long run.
- The cost of electricity is a key cost for businesses, as well as residential customers. Reducing this cost will encourage businesses to remain, expand, and locate in California. This means more jobs and more business investment. Two non-utility companies already plan to build new generation plants in California using the latest gas turbine technology.
- Having more time-of-use options will give consumers more incentive to use electricity efficiently to lower their costs.
- Electrical appliance manufacturers will have incentive to produce products which satisfy consumer needs but use as little electricity as possible.

PUBLIC PURPOSE PROGRAMS

The Legislature and CPUC have established public purpose programs to encourage energy conservation and efficiency, and research and development of energy efficient technologies and products. These programs will continue to be funded through a *public goods charge* which all customers will pay. Low-income assistance programs are funded through a separate charge.

ITEMIZED BILLS

Your monthly electric bill will be itemized so you can easily see how much you are paying for electricity, transmission of electricity, the competition transition charge, and the public goods charge. **However, your rates during the four-year transition period will not be higher than they were in June 1996.**

WHY THE ELECTRIC INDUSTRY HAS BECOME COMPETITIVE

1. The 1978 Federal Public Utilities Regulatory Policies Act required utilities to buy power from unregulated generators. The purpose was to encourage development of smaller generating facilities, and use of new technologies and alternative fuel sources such as wind, solar, water, and waste to produce electricity.
2. Use of alternative fuels reduces the demand for, and reliance on, fossil fuels. It also reduces reliance on importing fossil fuels from other countries, and is better for the environment.
3. The 1992 National Energy Policy Act allowed more types of unregulated companies to generate and sell electricity. Like California, other states also are exploring opening their electric markets to competition, and now Congress is considering legislation to make the nation's electric market competitive.
4. New technology such as fuel cells, micro generation plants, and photovoltaic systems enable consumers to buy electricity directly from local producers, or build a small, efficient plant to fuel their business or factory.
5. In May of 1995, after analysis of the changing electricity industry and many hearings around the state to get input from industry experts, utilities, consumer organizations, and the public, the CPUC proposed a policy for introducing competition in California's electric industry. In December 1995, after additional public comment, the CPUC adopted a final policy and began to plan transition to the new market.
6. In April 1996, the Federal Energy Regulatory Commission ordered electric utilities nationwide to allow other electricity providers to transmit electricity through utility transmission systems. Utilities and other companies in areas where electricity is less costly to produce will be able to sell cheaper electricity to areas where it is more expensive to produce electricity. As a result, prices should drop.
7. In September 1996, AB 1890 was enacted. This landmark legislation fundamentally changes California's electric services industry by introducing competition and customer choice.

HOW CALIFORNIA'S ELECTRIC MARKET WILL CHANGE

PG&E, Edison, and SDG&E will continue to own their transmission facilities but will turn operation of these facilities over to an **Independent System Operator (ISO)**. The Federal Energy Regulatory Commission will regulate the ISO. The ISO, functioning like an air traffic controller for energy, will operate the state's transmission system to ensure electricity flowing into it reaches all customers when they need it so they continue to have reliable service. The ISO will also ensure that all generators have equal opportunity to send their electricity through the transmission system to their customers. Generators who ship electricity through the system will pay a fee to cover system costs and to ensure system reliability.

Utilities will continue to have the "obligation to serve the public" they do now, and they will continue to deliver electricity to your home or business even if you purchase electricity from another company.

Distribution lines link your business or home to the transmission system. PG&E, Edison and SDG&E will continue to operate distribution lines and be responsible for reliable, safe delivery of electricity to your home or business. The CPUC will continue to make sure they fulfill this responsibility, and regulate their transmission and distribution rates using performance-based, rather than cost-of-service ratemaking.

A **Power Exchange**, regulated by the Federal Energy Regulatory Commission, will be established. PG&E, Edison, and SDG&E must sell their power to the Power Exchange. If they wish to, municipalities, independent power producers, irrigation districts, and out-of-state producers may also sell power to the Power Exchange.

PG&E, Edison, and SDG&E must buy power from the Power Exchange for four years to resell to customers who continue to buy electricity from the utilities. They will pay a price determined by the Power Exchange based on the market demand for power. This will assure fair competition between utilities and other electricity suppliers. To ensure PG&E, Edison, and SDG&E do not continue the monopoly advantage they have now by controlling generation, transmission and distribution, the ISO and Power Exchange will be independent of the utilities.

MORE INFORMATION TO COME

In the coming months, details about how electricity providers must register with the CPUC, and how and which customers will be able to participate in the new market on January 1, 1998, will be publicized so everyone will understand how the new electric market will work. Look for this information in your monthly electric bill, newspapers, TV and radio, and on the CPUC Internet web site: <http://www.cpuc.ca.gov> (look under the categories Electric Restructuring, News Releases, Daily Calendar).

Participating in the new market will be your choice. If you don't want to change anything about the way you or your business purchases and receives electricity, you won't have to, and the electric utility which currently serves you will continue to serve you.

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