

ATTACHMENT A

HOW ELECTRIC INDUSTRY CHANGE WILL AFFECT YOU

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This brief overview of the competitive electric industry in California is adapted from the California Public Utilities Commission Internet web site. For more information, see the CPUC Electric Restructuring page at http://www.cpuc.ca.gov/electric_restructuring/er_home_page.htm.

Goals of a competitive electric industry:

- **Consumer choice in electric services, and**
- **Competition among utilities and other electricity providers to reduce electric rates 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 in September 1996 to make California's electric industry competitive. The CPUC is implementing a four-year transition period to this new competitive market. As of March 31, 1998 investor-owned utility customers from all classes (residential, commercial, agricultural, industrial) are able to buy electricity from either their current utility or, through "direct access," from another electricity supplier. The industry will be fully competitive by 2002. (Municipal utilities are not required to offer direct access service as AB 1890 applies only to regulated investor-owned utilities. However, some municipal utilities, including the Sacramento Municipal Utilities District (SMUD), voluntarily enacted policies allowing some or all to obtain service from other providers.)

PG&E, Southern California Edison (SCE), and San Diego Gas and Electric (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 are now able to buy electricity from their current utility or from a non-utility electric service provider. If you are a customer of one of these utilities (now known as *utility distribution companies*), whether you decide to continue buying electricity from your 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 through direct access from whatever company will give you the service options and/or prices you want. (The utilities are precluded from providing direct access service to retail customers outside their service territories until after the year 2002. After that, they will be able to participate in the direct access market just as other energy service providers can now.)

The California Public Utilities Commission, working closely with the Federal Energy Regulatory Commission, utilities and other entities, 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 customers 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 utility.
- You may be able to contract with your city, your 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 at a time when it is least expensive.
- You can choose the supplier that offers the pricing plan you want. Some suppliers may offer different rates for day and for night, or for different seasons.

LOWER ELECTRIC RATES

The electric rates of PG&E, SCE, SDG&E, PacifiCorp and Sierra Pacific Power are frozen at the rates in effect on June 10, 1996. By law, these utilities were also required to reduce residential and small commercial electric rates by 10 percent on January 1, 1998.

PG&E, Edison and SDG&E are purchasing electricity from a competitive spot market called the Power Exchange. The Power Exchange determines the price of electricity hourly according to demand for and supply of electricity. It publishes the price of electricity so consumers can shift their energy use to times when it is less expensive.

Utility plants and other obligations will be paid off earlier, and at a reduced rate of return. This will reduce rates by April 2002. Under monopoly regulation, electric rates, in part, reimbursed 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, or if they determine that newer, more-efficient plants can provide the same service with reduced environmental impact and lower costs.
- 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.

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 will continue to be 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, delivery of electricity, the competition transition charge, the rate reduction bonds, and the public goods charge. However, your rates during the four-year transition period will not be higher than they were in June 1996. Rates for residential and small commercial customers were reduced by 10 percent on January 1, 1998.

WHY THE ELECTRIC INDUSTRY HAS BECOME COMPETITIVE

1. The 1978 Federal Public Utilities Regulatory Policies Act required utilities to buy power from certain unregulated generators. The purpose was to encourage development of smaller generating facilities, and use of new technologies, such as cogeneration, and alternative fuel sources, such as wind, solar, water, and waste to produce electricity.
2. Use of alternative fuel 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 Energy Policy Act of 1992 allowed more types of unregulated companies to generate and sell electricity. Like California, other states also are exploring opening their electric markets to competition. Congress is now 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 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.
7. In September 1996, AB 1890 was enacted. This landmark legislation fundamentally changed California's electric industry by introducing competition and customer choice.

HOW CALIFORNIA'S ELECTRIC MARKET HAS CHANGED

PG&E, Edison, and SDG&E will continue to own their transmission facilities, but have turned operation of these facilities over to an Independent System Operator (ISO). The Federal Energy Regulatory Commission regulates the ISO. The ISO, functioning like an air traffic controller for energy, operates 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 reliability.

Utility distribution companies continue to have the "obligation to serve the public," and they will continue to deliver electricity to your home or business regardless of who you choose to sell you electricity.

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, became operational on March 31, 1998. PG&E, Edison and SDG&E must sell the power generated from their facilities 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 their power from the Power Exchange to resell to their retail customers. 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 their traditional monopoly advantage by controlling generation, transmission and distribution, the ISO and Power Exchange are independent of the utilities.

MORE INFORMATION IS AVAILABLE

Look for information in your monthly electric bill and the service offerings of electric providers. The California Public Utilities Commission is a source of neutral, unbiased information about the changes to the electric industry. Visit the CPUC's Internet web site at: <http://www.cpuc.ca.gov>, or telephone the Electric Education Call Center at 1-800-253-0500.

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. If you want to make a change, or learn more about your choices, there is information available to assist you.