“If you could buy gasoline for $3.50 for the next two years, would you take the deal?"

QUESTION: I can get a 1 year [fixed contract] for 14.4 cents or 2 year for 15.9 cents. I realize it is a gamble to be protected for the 2 years but just wondered your opinion.

MARCIE ZLOTNIK: My crystal ball unfortunately is no different than yours. I equate this question to asking "If you could buy gasoline for $3.50 for the next two years, would you take the deal?" My opinion, and that's all it is, I would opt for the 1 year lower rate. On the other hand, if financially you can afford the 2 year 15.9 cent rate then perhaps you should lock it in and not worry any more.

Another way to look at this is to ask yourself are you the type of person who will keep checking prices to see if you did got a "good deal", then sign the short term. If you're more the type who can lock in and forget it until it's time to renew then a longer term may be for you. Regardless of the plan you choose, be sure to watch your contract expiration date and keep your eyes on prices as you approach that date. Finally do not try and guess which way the market is moving, no one knows that.

Q: What are the pros and cons of variable rates vs. fixed rates?

MZ: A fixed rate guarantees an energy price over a period of time. The pro is that you are locked in and protected from raising prices. On the other hand, if prices go down you will not receive the benefit of any price reductions. Additionally a fixed

rate contract typically includes a cancellation fee. Currently, you can not be charged a cancellation fee if you move, it's strictly to prohibit you from switching to another provider. Finally, choosing a fixed price allows you the freedom to forget about prices during the contract period.

A variable rate fluctuates monthly dependent on the criteria used to determine that rate (as defined in the retailer's Terms of Service). StarTex Power's variable rates are tied to natural gas prices and are determined at the beginning of the month for that month. The pro's for going with a variable rate is that you aren't locked into a price or a particular retailer. If prices go down, you receive the benefit. However, if prices rise (as we've seen in May, June and July) you aren't protected from those increase. Additionally, on a variable rate you really need to have the time to be monitoring the market on a regular basis.

It's really a matter of risk, how much volatility in your bill can you financially afford and how much time do you want to spend monitoring rates?

Q: What is the outlook for energy prices in Texas? Can we expect a decrease any time soon? How much of a decrease is estimated?

MZ: Since the market was deregulated, there has been a tremendous amount of capital invested in energy production and delivery in our state. Texas has already attracted scores of new power plants since deregulation. The amount of new generation in Texas is roughly $20 billion, with at least another $25 billion on its way. All with NO guarantees by consumers -

consumers only pay for it if they use it. Recently, there's been a big push on wind power, including $4.9 billion approved for transmission lines from West Texas, along with plans for nuclear power. Given all of these factors, I am optimistic that Texas is in a good position to take advantage of lower production costs. Electric retailers are also experimenting with meters that encourage conservation.

Q: What is being done to fix the deregulation problem?

MZ: I don't believe there is a problem with deregulation in Texas. If you are associating rising prices with a failure in deregulation then I have to disagree with your conclusion. The last year before electric competition (2001), Texas had the 14th highest average electric rates in the county and as of 2008, Texas ranks one better. Texas also has the 5th lowest average residential price relative to the fifteen states that rely on a generation mix similar to ours. Additionally, since the end of 2001, Texas competitive electric prices have only risen 27%; whereas, oil has risen over 500%, natural gas by over 250% and gasoline pump prices by nearly 250% during the same period.

I also believe that it's premature to judge "deregulation" so quickly. It was just 1/1/2007 that Price to Beat went away. Let's give this market a chance.

You may want to read this article for additional information.

Technorati tags: electric deregulation, energy, business

Q: Are energy prices in Texas pegged to natural gas prices directly and if there is an increase/decrease in natural gas can we expect a proportionate increase/decrease in the price per kilowatt hour of energy?

MZ: Yes, since natural gas account for roughly 75% of the generation in Texas so the two are directly correlated. While I can't speak for any of my competitors, I will tell you that we have reduced our rates from July (when Natural Gas prices were at their highest) by an average of 2-3 cents per kWh and if prices continue to decrease we expect additional price reductions next month.

Q: Are high prices of natural gas the only reason for high energy prices?

MZ: Not the only factor but until recently certainly the main reason. What we have experienced (primarily in the Houston area) is severe congestion which took a real toll on our prices. The PUCT quickly stepped in and ordered a change in the way congestion in ERCOT was managed. That change appears to have stabilized the severe wholesale price spikes we saw in the past few months.

An article in the Houston Chronicle on 8/10/2008 describes the situation as:

To meet its peak power needs, Houston often has to draw on power from North or South Texas. The connections between those zones can become congested during peak hours, so power generators are offered higher rates to relieve that

congestion. That means higher wholesale prices for the Houston area.

Q: What are some ways consumers can take action to get some relief from soaring prices?

MZ: Manage your contract, keep up on pricing by visiting the Power to Choose and implement energy conserving measures such as those on the PUCT website. There are additional links on the website to energy efficiency improvements, conservation tips and other helpful information

Q: Who is benefiting from the high prices of energy?

MZ: There are clearly winners, such as large exploration and production oil companies and companies that own significant amounts of coal and nuclear generation.

Q: How is it that the [Public Utility Commission] can allow rates to go so high in such a short period?

MZ: I can't speak for other retailers but let me tell you why our prices have escalated so high recently (though they've come down in August). Think of retailers as the corner gasoline stores. When they raise gas prices most people do not think the station owners are making money but rather just passing on the increase of the wholesale commodity they are buying. It's the same with retailers. The majority of our costs come from wholesales natural gas prices which have almost doubled since January.

If a retailer's customer is not on a term contract the retailer typically has to buy for that individual in the open market for a short term period. I try to liken it to buying groceries at 7-Eleven. It's probably the most expensive place to buy groceries but you can't go to Sam's because you don't want to buy too much in case your customer leaves you. Even a term contract of just 6 months may be significantly lower then a month to month variable rate. All that being said, this is a commodity market and anything can happen at the blink of an eye.

Q: What do you think about the moral position of a utility company that charges rates that are unchecked?

MZ: Competition keeps rates "checked." As you can see by researching the Power to Choose most retailer's prices are very similar and when one drops the price, the others follow. Please keep in mind that other than one retailer, no one else has generation in Texas and as a result we are passing through our cost from the wholesale markets. Additionally, about 1/3 of our rates go to the wires company (in Houston it's Centerpoint Energy) for the transmission and distribution of power and the maintenance of the lines. These prices ARE regulated and transparent to everyone. There's an article about our transmission prices in Sunday's Chronicle.

Q: Why are retailers required to pay interest on customer deposits, yet they are not required in anyway to escrow or otherwise protect those same deposits from possible retailer bankruptcy, etc., nor are they required to inform customers that their deposits are at this kind of risk?

MZ: I think it's a great question and I suspect we may see some rules to that effect coming up. We are required to keep the deposits separate but that doesn't help a customer when their retailer goes out of business.

Interestingly, the interest rate retailers must pay on deposits is greater then what you can receive in a bank today. In effect there is a penalty to retailers for holding deposits. While not significant on any one deposit it does add up.

Q: My beef with dereg is before you switch they have to read your meters and that could take two months at crazy high variable rates.

MZ: The reason your meter has to be read is to get a final read as a cut off point for your previous retailer. You can request an out-of-cycle meter read which costs $6 in the Centerpoint area (a fee charged by Centerpoint and passed through on your bill) and the switch can be completed in 3-5 business days.

Q: Energy delivery firms have so far been able to avoid price reductions due to additional competition. What will the end result be?

MZ: First I have to disagree with you about the value competition plays in keeping prices low. There isn't a day that goes by that we don't look on the Power to Choose at our competitor's prices and lower them if needed. The reason for the price increases of late has everything to do with natural gas prices and local congestion. Secondly, I believe that advanced metering holds the key to the future. Once real time data from a residential meter can be presented to the retailer and to the market, we will see pricing plans similar to the old Day-

Evening-Night long distance plans which drove off-time prices down significantly. Imagine if you knew that using your washer at night saved you 10% on your bill. We could significantly alter our peak demand in the State and reduce our need to deploy older more expensive units for these intervals. Families could monitor real time price signals and consumption to alter behavior in order to keep on a budget. "Pre-paid" electricity cards I believe will become as prevalent as those in the telecom world where you completely control how much you use by only "loading" your meter with a certain dollar value or consumption amount.

Q: What would we be paying if we had never deregulated?

MZ: In 2006 The PUCT performed an analysis of prices for the years 2002-2005. They found that in the Centerpoint area, the regulated prices would have been 18-26% higher then the average of the five lowest actual retail prices. This study has not been updated, but the analysis suggests that restructuring compares favorably to regulations. The reason being, in both scenarios the driving factor of the price increases is the increase in the cost of natural gas.

Additionally, in January 2008, the average competitive offer in Texas was only 2.9% higher than the inflation-adjusted regulated rate in 2001. And the average lowest offer was 17.9% below the former regulated rate despite the significant increase in natural gas since 2001.

I would also however disagree that deregulation could be deemed a "failure" strictly based on a price comparison. The

amount of new generation in Texas is roughly $20billion, with at least another $25 billion on its way. All with NO guarantee by consumer - they pay for it only if they use it. Recently, there's been a big push on wind power, including $4.9 billion approved for transmission lines from West Texas, along with plans for nuclear. Electric retailers are also experimenting with meter readers that encourage conservation.

Q: On average, how much power do you generate that you never get compensated for? Is it possible to generate less power than you get compensated for by gambling that other power providers will significantly exceed their customers demand? Do you even generate your own power, or do you purchase it all from somebody else?

MZ: I had to reach out to our Wholesale Supply experts who kindly answered this question:

When the Texas electricity market was deregulated the monopolies were split into three separate companies, the Transmission and Distribution Service Provider (TDSP), the Power generation company (Generator) and the Retail Electric Provider (REP). The TDSP is the only company that remained regulated in the new market. They are regulated by the Public Utility Commission of Texas, who sets the rates they are allowed to charge and ensures that they meet reliability and safety standards while providing equal levels of service to all customers regardless of who the customer has chosen as his/her REP. The REP is the primary contact of the customer to the electrical market. The REP is responsible for producing a bill for every customer and is required to meet certain standards for operating in the Texas market which are set by

the PUCT. The TDSP continues to read every customer's meter and that data is sent to the customer's REP through an independent third party. The third company that was created was the Generator. The Generator is the company that produces the electricity which is then bought by the REP to serve its customers. Customers can not directly buy electricity from Generators but must purchase through a REP. All customers will receive their electricity through the lines operated by the TDSP regardless of which Generator the REP purchases its electricity from and the customer will not lose power because his/her REP doesn't purchase electricity. It is always the responsibility of the TDSP to ensure that the customer has power and the REP is responsible for the accounting and billing.

Q: How deregulated are you? Can you charge anything you want to for the electricity you provide, or is there a floor and/or ceiling that you have to work within?

MZ: As a retailer I can charge anything I want to. However, no one will buy my product if I am charging too much and I won't stay in business if I don't charge enough to cover my costs. The only other piece of information I'd like to point out is that about 1/3 of our costs go to the wires company (in Houston it's Centerpoint Energy) for the transmission and distribution of power and the maintenance of the lines. These prices ARE regulated and transparent to all customers and therefore all retailers.

Q: Please tell us how we as consumers come out ahead in our cost for electricity with all of this marketing and advertising cost built into our electric bills?

MZ: I have two thoughts on this. The first is that the additional advertising is helpful to the end user by increasing awareness and understanding of this new market. Secondly, companies such as StarTex Power who don't do any advertising keep prices low and force competitors to do the same.

Q: With deregulation everyone is encouraged to "shop for the best deal." To most people, that means cheapest service. Cheapest service generally means power generated by the cheapest means which is burning fossil fuels, especially coal. If most of consumer money goes to the cheapest providers how are we ever going to get to a place where environmental concerns are given reasonable consideration when it comes to how power for our state is generated?

MZ: Again, I had to reach out to our Wholesale Supply experts who kindly answered this question:

The deregulated electricity market does provide the opportunity for the lowest possible costs due to the economic efficiencies that should develop over time. When a customer buys from a Retail Electric Provider he/she is not buying from a generator so he can not buy any particular fuel. He is buying at the market rate which is determined by a number of factor but is generally priced at the cost to produce to last bit of power that is produced at any given time. All generators are paid based on this price and not based on their cost to produce. This does, however, send generators an economic signal that they

should build more coal and nuclear plants as they will make more money on those types of units. That being said, there have been cases when the public has stopped the building of these units. In fact, one company presented a plan to build 11 coal plants but ended up only building 3 because of public opposition. Although this means that prices will be higher than they would have been if the plants were built, the public decided that was better than building the plants.

Q: From an industry perspective, what do you feel is the most desirable change that could be made to the current system? Or do you feel that the current system is ideal as it is?

MZ: I would like to see four changes. The first being additional transparency into the wholesale side of the market. It's critical consumers realize that retailers, just like independent gas stations, have very little to do with the pricing of electricity. The majority of the costs are to cover either wholesale prices or the wires company charges . The market must be protected from manipulation, hockey stick bidding and other techniques used to push prices up.

Secondly there needs to be a change made to the structure that is required for retailers to make long term purchases that support their customers contracts. In this market a retailer must work with a company who has generation, that company will be the retailer's primary (and perhaps ONLY) source of supply. This is because of the credit requirements that arise from making these long term purchases. Most retailers have to secure their purchases with their receivables. This limits the number of wholesale parties from which a retailer can make

wholesale purchases. It's just not possible to have receivables backing different suppliers, they would have to go to different lock boxes, have different addresses what a mess.....so virtually one supplier is the only viable option. Where there is only one supplier there is nothing driving prices down. There are even times we can't get a price to generate a proposal, why who knows? Computer problems, volatility, no clue but with out a wholesale price there can be no retail price. The wholesale market drives the retail market, not the other way around.

Thirdly I support the clarification of contract terms. I favor a standard residential contract that retailers CAN (but do not have to) use. This would assist consumers in being able to more accurately compare pricing of similar products. We need to make sure that definitions of the various terms and conditions such as fixed, variable, material change etc are clear. Retailers entering the Texas market need to fully understand that you can not come in to our market, promise a fixed rate to consumers and change that rate based on a weakly defined material change. It must be clear that a change such as a change in the wholesale costs of electricity, in my opinion, does not constitute a material change and anyone who employs that strategy should face certain penalties or a revocation of their license. I know the Commission has opened project # 35767 to address just such concerns.

Finally, the licensing process is also an efficient place to weed out management teams who do not possess relevant experience or whose members show a pattern of business

practices that are not acceptable to the marketplace. Many of us saw the same folks showing up from one failed business to the next, maybe not on paper but in practice. Again, the commission has opened project #35767 to address REP certification.

Q: The Wall Street Journal wrote ***an interesting article*** *about the extremely high electric rates that Texas was experiencing this summer and how that compared to the rest of the country. We need to demand that our politicians correct the mess that they created.*

MZ: I have to dispute some of the points made in the WSJ:

1. Texas was 15th in pricing on Day 1 of deregulation, 14th now.

2. Amongst states with similar dependence on natural gas, Texas has the fifth-lowest rate. To compare Texas to the rest of the US and blame the difference on deregulation is not a fair assessment.

3. Approximate costs of production:

Nuclear: $30/MWH

Coal: $50/MWH

NG: $100/MWH

4. In 2006 The PUCT performed an analysis of prices for the years 2002-2005. They found that in the Centerpoint area, the regulated prices would have been 18-26% higher than the average of the five lowest actual retail prices. This study has not been updated, but the analysis suggests that restructuring

compares favorably to regulations. The reason being, in both scenarios the driving factor of the price increases is the increase in the cost of natural gas.

5. The investment dollars that deregulation has brought into our state should produce a very healthy future for a more diversified fuel mix and hopefully lower prices.

I would also like to point out that the amount of new generation in Texas is roughly $20billion, with at least another $25 billion on its way. All with NO guarantee by consumer - they pay for it only if they use it.

Q: Reliant offered to lock in a price for electricity at 16.3 cent per kWh for two years. Feeling that with the price of oil and electricity going up I signed up for the two year contract. With oil prices coming down now I'm starting to feel that I may have made a mistake. What is your opinion?

MZ: Great decision at the time. Now you need to look at whether prices have gone down enough for you to "buy" yourself out of your contract and get a lower rate. In order to do that, take your cost per kilowatt 16.3 less the potential new rate multiplied by your average kilowatt consumption. That's the amount of savings per month. Compare that to any cancellation fee and decided if it's worth it to "refinance" your rate . One word of caution, be sure that you are comparing apples to applies when looking at rates

Q: San Antonio has not opted in to the deregulated provider scheme. Its City Public Service provides electricity to my property at less than

11 cents/kWh -- about 30% less than the BEST deals with the resellers in Houston. How is that possible? Are the resellers just making a killing in their markup (way beyond the oil company alleged 'obscene' profits- or is the City of San Antonio somehow subsidizing the retail customer?

San Antonio has a huge advantage they have the South Texas Nuclear Project and nuclear cost are 60% lower then natural gas.

Other municipalities such as Weatherford municipality which has enjoyed lower rates is now charging .199 and consumers have no choice or alternative. StarTex Power's current prices in the deregulated areas of Weatherford are between .126 and .137 depending on the term.

Here are some interesting facts on price increases in Texas from 1/1/2002-5/2008:

Prices increases in competitive areas : 11-43%

Prices increases in Ercot Municipality Areas: 23-47%.

Price increases in Ercot Coops: 50-60%

Just like the corner gas station, the retailers have very little margin between their wholesale cost and the retail prices being offered.

We were under an annual contract (with StarTex Power, paying 12.9 cents) and before our new provider took over our contract, we had to pay our last month at whatever the current open market rate was (for

us it was 19.9 cents). We were NEVER notified about our contract ending...although we did call one or two months prior to expiration to see whether we could continue with this provider. Since they could not verify the new rates for us at the end of our contract, we called another provider. They told us that they could not initiate service until after the meter reading, which (for some strange reason) happened AFTER our annual contract had expired. Talk about confusing? there is NEVER a loss of service, so SURELY providers can work this "kink" in the system out.

I think retail electric providers and consumers have both learned some valuable lessons in the past few months. Since prices had been fairly stable (and even decreasing slightly), the expiration of contracts into month-to-month prices was virtually a "non-event". Not the case beginning in about April 2008 when prices spiked suddenly I'm not sure that notifying customers when their contract was up was the answer. The spikes were so sudden I doubt many folks could have predicted them and would have chosen long term contracts.What StarTex Power is going to do is put a customers contract dates on their bill, giving the customer the tools to manage their account. What consumers need to do is pay attention to their bills like they do with variable mortgage rate loans or lock into a rate and pay attention to their contract expiration date. Finally as far as being able to "verify" new rates ahead of time, that's just not possible. As we've seen recently wholesale prices can be extremely volatile and therefore retailers can not set their pricing until the last minute.