



Texas Electricity

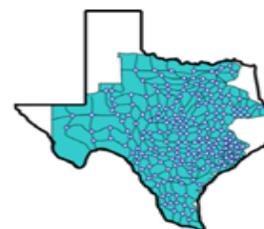
December 2nd, 2010

Nodal Market Transition

The electricity market in Texas is undergoing its biggest change since the retail market was opened to competition in 2002. On December 1st, 2010, the deregulated Texas electricity market transitioned from the zonal system to a nodal system. This change will fundamentally alter the way electricity is bought and sold in Texas.

ISSUE SUMMARY

Under the zonal system there were 4 distinct geographic regions or “zones” with one wholesale clearing price in each zone. However, in the nodal market power will be bought and sold at over 4,000 different points on the grid called “nodes.” This increase in geographic price transparency is designed to highlight where investment in new infrastructure is needed most. Over the long term these investments should yield pricing efficiencies by reducing congestion costs and allowing less expensive power to be accessed by more end users.



IMPACT ANALYSIS

The nodal market is going to introduce 4 new issues that end users of electricity will have to address.

- 1) Under the nodal market **intra-zonal congestion charges will be calculated and allocated differently** than in the zonal market. Most REPs are passing this charge through and customers will begin seeing this charge on their January invoice. It is important to understand how your REP is allocating these charges.
- 2) **The MCPE market no longer exists** as of December 1, 2010. It has been replaced by the real time LMPZ index. The fundamental difference is that instead of having only one wholesale price to contend with customers will pay the load weighted average of all the nodes in the zone where they take power.
- 3) **A day ahead index has been created** and some REPs are offering this as an alternative to the real time market. Since the nodal market began on December 1 the day ahead clearing prices have been higher than the real time index but it is too soon to form any long term opinions as to which index will yield lower prices.
- 4) **Reliability Unit Commitment** is a new mechanism ERCOT will use to manage intra-zonal congestion and ensure grid reliability. This is likely the most challenging issue for customers to address as different REPs are approaching the treatment of this cost component differently.

ACTION ITEMS & RECOMMENDATIONS

Energy Edge will undertake the following action items on your behalf in the coming weeks and months in response to the nodal market transition:

- 1) **Answer any questions** you might have about the market redesign and provide more detail around the changes discussed above should you be interested;
- 2) **Provide an estimate** of the nodal charges prior to you receiving your first invoice under the nodal market;
- 3) **Audit your first set of invoices** that contain the new nodal related charges to ensure the charges you are receiving are accurate, allocated correctly and authorized under your contract;
- 4) **Continue to provide commentary** on the evolving nodal market and how customers can manage their electricity costs under the new market design.

At Energy Edge Consulting, we are committed to helping clients navigate today’s complex energy challenges. If you need assistance with the nodal market transition or any other energy related issue, please call us.