

A man in a dark suit and red tie stands on the left, looking up and holding a glowing lightbulb. The lightbulb is surrounded by a burst of golden, geometric shapes and light rays against a dark background. The title text is positioned to the right of the lightbulb.

# Navigating Increasingly Confusing Texas Electricity Rate Plans

By Alan Lamme

**W**hen it comes to picking an electricity plan for your business or home in Texas, what was a fairly straightforward process a few years ago has turned into a mess of complexity. If you're shopping for the lowest cost electricity rate in the Lone Star State, you might decide to go with the company that advertises the lowest rate. However, you'll soon discover it's not as easy as you'd hoped. With so many power provider choices and different electricity rates, how do you make a good decision? Before you blindly choose a plan, we'll help you make some sense of it all.

## Why Three Electricity Rates for Each Plan?

Texas was an early adopter of deregulated retail electricity, and it has been very successful. The Public Utility Commission of Texas (PUC) developed a strict set of rules and requirements for retail electricity providers (REPs) to follow. One of the rules is that every REP must disclose an Electricity Facts Label (EFL) for every plan they offer.

For residential or small commercial business users of electricity, there are three separate electric rates for 500 kilowatt hours (kWh), 1000 kWh, 2000 kWh. Sometimes the advertised rate is called an energy charge.

The information on the EFL also follows a specific set of requirements set forth by the PUCT, which includes displaying the average price per kWh for 500 kWh, 1000 kWh, and 2000 kWh usage levels. As a result, Texas electricity providers are required to display three electricity rates.

### **What Do the Three Electricity Rates Mean?**

The three electricity rates on the EFL are the average price per kWh for the most common usage levels: 500 kWh, 1000 kWh, and 2000 kWh. These rates are not unit prices, and they do not correspond to a range of energy usage. These rates are the price you would pay per kWh if you happen to use that exact amount of electricity in one billing period, which is nearly impossible.

Texas is unique in the way that electricity customers are billed by their electric providers. The REPs bill customers for both the electricity used (energy charge) and the delivery of the electricity (utility charge). The combination of the

energy charge, the utility charge, as well as any monthly base charge is the average price per kWh.

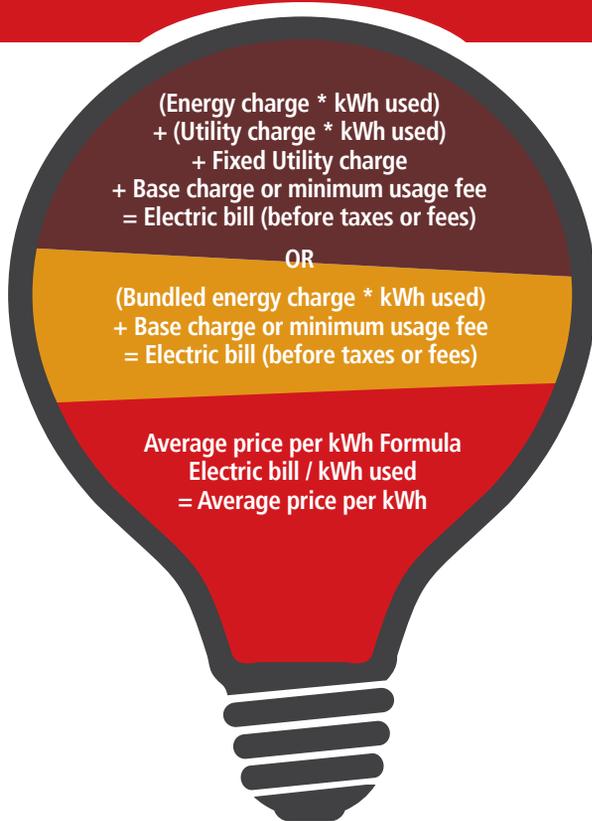
For each electricity plan, the provider will sometimes show the energy charge and the utility charge separately, but sometimes they will combine the two and call it a “bundled energy charge.” To make things more confusing, the providers may advertise the aforementioned 500 kWh, 1000 kWh, or 2000 kWh average price per kWh or the bundled energy charge, and you have to read the fine print to figure out which one it is. Until you dig down into the details of the EFL, you really don’t know what you’ll be paying for electricity.

### **How Do I Choose the Right Electricity Rate?**

The most important thing when choosing the right electric rate is knowing how much electricity you use. In Texas, your electricity usage may make dramatic swings between summer and winter. Understanding your peak usage in the summertime and also where you shake out the rest of the year will help you narrow your search for the perfect electricity rate. When you get a better understanding of your electricity usage, you will be able to estimate your electricity bill for any plan.

The most important variable in calculating your electricity bill is your monthly kWh usage. The average price per kWh formula below is how electric providers calculate their 500 kWh, 1000 kWh, and 2000 kWh advertised rates.

## TYPICAL ELECTRIC BILL FORMULA



### How to Make It Through the Minefield of Rates and Plans

If you're a Texan shopping for an electricity plan and one stands out with an unusually low rate for a particular usage level, this is one that you'll need to more closely look at. Beware because it is likely a plan that features a well-placed bill credit. For example, a \$100 bill credit at 2000 kWh usage can drop the advertised average price per kWh dramatically. This advertised rate is not a unit price for electricity over 2000 kWh. While the bill credit may be beneficial to you, it can also mislead you into thinking that you get a fabulous low rate for energy usage over and above that level.

### Watch Out for Teaser Rates

As you work your way through the various electricity plans offered in your area, you've probably come across a few that seem too good to be true. As the old adage goes, "If it sounds too good to be true, it probably is." These teaser electricity rates create confusion for customers looking for the best deal they can get using electricity comparison sites such as the PUCT's Power to Choose.

Despite the PUCT's efforts to curtail teaser rates by giving users the ability to filter out minimum usage fees/credits, teaser rates still overwhelm the Power to Choose

site to the point. It's easy for customers to be misled on what they're actually getting. On a recent visit to the site, the first five pages of the default search for any particular zip code in Texas was filled with what we consider to be teaser rates and that was with bill credit filter on.

### What Exactly is a Teaser Rate?

In a nutshell, a teaser rate is an unbelievably low rate charged by a REP to get you in the door. However, this rate is very short-term (as little as a month) and will then most likely default to a significantly higher rate after the teaser rate period is over. The REP is hoping that you're not paying attention as they increase the rate by sometimes as much as 50 to 100 percent after the teaser time period expires. Typically, teaser rates fall into two or three categories.

### Category #1: Tiered Rates Based On kWh Usage

For this example, we'll use a teaser rate of 4.3¢ per kWh that was recently offered on a REP website. The rate of 4.3¢ for the 1000 kWh usage level is noticeably different compared to the rates for 500 kWh and 2000 kWh usage levels. Does it sound almost too good to be true? It is, unless you use exactly 1000 kWh in a billing period.

The 4.3¢/kWh at 1000 kWh usage is not a unit price for a range of electricity usage. It is the rate you pay if you happen to use exactly 1000 kWh of electricity in a billing cycle. If you happen to use 1001 kWh, your rate can more than double for this particular plan. For this particular tiered energy rate plan, once you use over 1000 kWh in a billing cycle, your electricity bill more than doubles and continues to go up from there.

Power to Choose has pages of search results with tiered energy rate electricity plans that follow a similar formula. When the Power to Choose site added a filter to exclude plans with minimum use fees/credits because of the public outcry against misleading electricity plans, providers came up with this new way to manipulate their advertised rates. Tiered rate plans can be incredibly complicated. When you look at an EFL for a tiered energy use plan, you may see as many as three or four tiers of energy pricing.

Avoid being drawn in by the electricity rate anomalies that tiered rate plans create, which may also have a steep cancellation fee that could leave you in a bind. Educate yourself about your energy usage and do your homework on these plans to make sure you're getting what you expect. Don't be tempted because there are a lot of other more straightforward, fair-priced plans available in Texas.

### Category #2: Bill Credits

Bill credits are helpful if your electricity usage stays within a very predictable range every month. However, that can be a challenging accomplishment with the brutally hot Texas summers. Electricity providers offer bill credits on some of their plans and strategically place these bill credits in order to create an unusually low rate per kWh so that they rank higher on comparison shopping websites. Even though Power to Choose gives you the ability to filter out plans with bill credits, they still exist.

Just keep in mind that the advertised kWh rates shown are calculated rates that combine an energy charge, utility delivery charges, and a bill credit of, for example, \$85 for usage greater than 999 kWh in a billing cycle. The advertised rates are what you pay only if you happen to use exactly that much electricity in a billing cycle.

If your electricity usage ranges between 1000 and 1700 kWh's per month, this plan might be a good choice, but if you happen to use less electricity and do not qualify for the bill credit, you will be paying a much higher rate than you expected. It's as if you're penalized for not using enough electricity. On the flip side, if your electricity usage spikes in the summer, your electricity rate will too because the more electricity you use, the more diluted that bill credit becomes. With bill credits, there is a usage sweet spot, and you need to determine what that is and stay within it in order for this type of plan to be a good deal.

### *Category #3: Introductory Rates for New Customers Only*

The majority of the rates advertised by electricity providers are for new customers only. These rates aren't necessarily teaser rates, but it is something to be aware of. When it comes time to renew your electricity contract, your provider will notify you at least 30 days before your plan expires and include a new offer. Chances are the new rate won't be as good as what you've been paying. Even though your provider may say this is the "best offer available" and "act now before it expires," you should still shop around just to make sure. Whatever you do, don't ignore the contract expiration notification.

If you let that contract expiration slide without acknowledging the renewal offer or enrolling in a different plan, you will be enrolled in what is called a "default product" or a

## **WHEN IT COMES TIME TO RENEW YOUR ELECTRICITY CONTRACT, YOUR PROVIDER WILL NOTIFY YOU AT LEAST 30 DAYS BEFORE YOUR PLAN EXPIRES AND INCLUDE A NEW OFFER. CHANCES ARE THE NEW RATE WON'T BE AS GOOD AS WHAT YOU'VE BEEN PAYING.**

"variable rate product," and these typically have much higher rates than your previous plan. It's generally a month-to-month plan that can produce an unpleasant electricity bill, which can be double or even triple your electricity rate prior to expiring. This is standard industry practice and happens with any electricity plan regardless of the initial contract term.

Whether it's for a business or a residence, your electricity bill can be one of the largest monthly expenses, so it's important to take some extra time to understand and digest the reputation of the electricity provider, how your bill is calculated, and all expenses that are involved. It may take a little extra effort, but great electricity rates and plans can be found in Texas, as can lower overall utility expenses. Finding them can increase your bottom line and put more money back in your bank account each month. **N**

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