



Entering the Texas Market: A How to Guide

Choosing to enter a new market can be challenging – the process is complex and it can be long and arduous to complete. This guide is designed to highlight the key points involved in the process so you have a better understanding of what is entailed.

ePsolutions offers this guide to help you along your path to entering the Texas market. Our hope, of course, is that as you evaluate back office solutions, you will consider emPower. In addition, our Professional Consulting Services are available to help guide you through the process of entering a new market and can also assist in optimizing your business to achieve profitability quickly.

Step One, Part One: File with the Public Utility Commission of Texas (PUCT)

An application to become a Retail Electric Provider must be filed with the PUCT prior to the marketing of electricity within the state of Texas. This application must be filed electronically with additional paper copies filed in the PUCT office in Austin, Texas. Several important points to note as you prepare your application are:

- a. As a part of your application, you will be required to show that an owner of the company or an employee of the company has prior industry experience. In the event you are choosing to use a consultant to meet this requirement, additional documentation about the consulting agreement will be required to be filed with the PUCT in order to have a complete application.
- b. The PUCT requires that any REP have the ability to interact with the Texas market for operational items as well as purchasing of power. In your application you will be required to outline the company's ability to meet this need internally or with third party assistance.
- c. All REP's must be able to show proof of financial capability in order to participate in the Texas market. This is initially covered by submitting proof of liquid assets equal to or greater than \$100,000. The PUCT gives you multiple ways of providing

this proof of financial capability although the most commonly used are letters of credit and assigned bank accounts. This financial capability must be maintained for at least 18 months unless otherwise relieved by the PUCT.

Upon completion of your filing, the PUCT will begin a review of your application to determine if it meets the requirements to allow you to become a REP within the state of Texas. If your application is found deficient you will be given a chance to cure any errors. Once the period for cure is completed your application will be forwarded to the PUCT board with an attached recommendation for approval or denial.

Step One, Part Two: File with ERCOT to become a Load Serving Entity (LSE)

Concurrent with the filing of your REP application with the PUCT, you will need to complete a LSE application and file it with ERCOT. This application requires much of the same information included in the PUCT application for REP status. Several important points to note as you prepare your application are:

- a. Prior to completing your application you will need a DUNS number which will be your account number for the period of time you are selling electricity within the deregulated Texas market. If you do not have a DUNS number you will not be able

to file a complete application with ERCOT and will not be able to test with the market place

b. Your LSE application requires the designation of a Qualified Scheduling Entity (QSE) for your company prior to the commencement of business within the state of Texas. A QSE is needed to schedule your estimated load with the market place one day prior to actual consumption by your customers. This is a vital role in your business and you should talk with a market expert to determine your options and which best suit your business plan. Please note: You may include this on your initial application or you can file an amendment prior to going into production with this election.

c. All LSE applications require payment to ERCOT in the amount of \$500. This fee is due and payable at the time of filing.

Step Two: Complete Flight Test with ERCOT

If you are a new REP within the Texas market you will be required to complete one of the three annual flight tests held by ERCOT each year. The purpose of these flight tests is to demonstrate your businesses ability to communicate with the market, show an understanding of the business rules and Texas SET rules, demonstrate the functionality of your back office system and finally test your ability to receive invoices and remit payments to the market. Several important points to note as you go through this process are:

a. To enter a flight test you must notify ERCOT of your intent to participate in the upcoming flight test. This is normally done via email and is sent to the flight test coordinator at ERCOT.

b. Once you have entered the flight test you will need to have your testing worksheet completed with ERCOT. This can be done by your service

provider or yourself. The data included in the testing worksheet relates to your back office system as well as your connectivity information and operational elections. Many of your operational elections effect how you will run your business within the Texas market and should be decided prior to conducting the flight test. It is recommended that you consult an industry expert if you are not sure of the ramifications of these decisions as they apply to your business model.

c. Once you have completed your testing worksheet you or your back office provider will need to complete testing connectivity with ERCOT and the market. This process will ensure that your system can communicate with ERCOT and the TDSP's. There are specific transactions required for this connectivity and should be completed in conjunction with your service provider.

d. Next you will complete a penny test with each TDSP's you have chosen to connect with during the flight test. This process confirms once more that your back office systems are connected as well as confirming connection of your banking system with the TDSP's. Each TDSP will require a transmission of \$0.01 to them as a part of this test.

e. Once the connectivity and penny testing are completed you will begin flight testing. This is a series of transactions and operations that replicate the actual daily transactions you will be executing in the Texas market place. The transactions are scripted and require specific data and timing to ensure that you are capable of operating within the Texas SET rules through ERCOT and the market place.

Step Three: Complete Production Connectivity

Once you have completed the flight test you will be certified by ERCOT if you have passed the flight test. This certification is contingent upon a completed application having been received by ERCOT. In the event you have not yet designated a QSE with ERCOT and the PUCT you will need to do so at this time.

Once you have been approved by ERCOT and the PUCT you will enter the mandatory ERCOT black out period. This period is best used to complete set up of your business operations and to ensure training has been completed by all personnel.

Finally your company will need to complete production connectivity. This is similar to testing connectivity with the difference being that at this point you are connecting to production facilities with your actual operational system with the intent to begin selling electricity within the market. Upon completion of connectivity with ERCOT and each individual TDSP you will be able to begin selling electricity within that TDSP's defined area of operation.

Upon completion of your production connectivity you will need to schedule your power purchases for the initial date you intend to bring customers online on your system. Prior to sending your first enrollments you will need to notify ERCOT as you send your initial enrollments. Your customer rep will use this to monitor your first enrollments and confirm that ERCOT and the TDSP's are receiving them properly.

As you prepare to enter the Texas market, it is best to have an industry expert available to help you. At ePsolutions we not only advise you on this process but also assist you in the preparation of the paper work and filings with ERCOT and the PUCT. As an Austin based company we are located at the heart of the regulatory system for this industry. If you have any questions about the process or if we can be of assistance, please contact us at 512.263.8765 x245.

This white paper was presented by ePsolutions, Inc.

ePsolutions delivers the industry's most fully integrated, automated, and cost effective back office solution on the market for competitive energy resellers. Combining the comprehensive emPower software with a knowledgeable team of experts, ePsolutions helps resellers substantially lower operating costs and free up resources to support other aspects of the business. Founded in 2004 and serving clients throughout Texas, it is a privately-held company backed by Peninsula Capital Management, Inc., Toreador Resources Corporation (Nasdaq:TRGL) and private investors. For more information, visit www.epsolutions.com. © 2007 ePsolutions, Inc. All rights reserved.

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