



Taking TXU Further

BURKE GETS COMPETITIVE

Photo courtesy of TXU Energy

By Martin Rosenberg

THE EYES OF Texas – and much of the utility world – are upon Texas utilities as they prepare for full bore competition. TXU Energy's Jim Burke, with a background in the competitive beverage business, is juiced for the new era that will soon be dawning. *EnergyBiz* caught up with TXU Energy's 37-year-old chairman and chief executive at a recent industry conference. His comments, edited for length and style, follow.

energybiz: Texas is going to be fully deregulated in January. Would you say it is the most advanced deregulated market in the country?

BURKE: Absolutely.

energybiz: What would you say to a CEO of a monopoly utility about the desirability of responding to open markets as opposed to maintaining a monopoly market?

BURKE: It's somewhat threatening to a monopoly that their service territory and their customers are going to be competed away. TXU, Reliant and Direct Energy in Texas may be giving up a little in their own service territory. But there's an opportunity to grow outside that service territory, not only within Texas

but outside of Texas. So in the long run, we believe it's going to be healthier for our company. In the short run, it's quite challenging.

energybiz: Is TXU going to be a proponent for change outside of Texas?

BURKE: Yes. We would expect to. The rules obviously are not easily changed and developed on a market-by-market basis, but our strategy first and foremost has been to develop a power generation business outside of Texas. Then, based off of expanding our generation fleet, we could see developing wholesale and retail market capabilities to be competitive in those markets. In some markets, generation is opening up more fully than retail.

energybiz: Why deregulate?

BURKE: The Texas Public Utility Commission has quantified the savings level for customers by virtue of the market becoming competitive. Customers ultimately give us feedback. The research that we have done shows that we still have 80 to 90 percent support for competition.



TEXAS NEEDS TO DEMONSTRATE CLEAR SUCCESS WITH COMPETITION.



energybiz: What new offerings have you devised for customers?

BURKE: We have introduced a gas tracker product. No one else has it in the market right now.

energybiz: It ties your electric bill to natural gas prices?

BURKE: Yes. We put in a cap on the high end and a floor on the low end so that the customer doesn't have this unmitigated exposure if gas were to rise. And we have monthly safeguards of how much it can move in one month. Right now, that product could save people anywhere from six percent to eight percent over the course of the summer. That's significant.

energybiz: And you are just going to hedge your risk with futures contracts?

BURKE: Yes. TXU manages the risk position of the types of products that we have in TXU Energy, and the amount of generation we have in TXU Power. They put that in the mix with all of the other types of products we sell — residential, commercial and industrial.

energybiz: Will you try to grow your business outside of Texas?

BURKE: From a residential point of view, Texas has the most attractive market. I'd have to see another market of the size of Texas. Texans use two and one-half times the electricity of California on a per household basis. Part of it is a scale question. We are starting from a significant position in the largest market in the country.

energybiz: As your markets fully open in 2007, will other states want to replicate what is being done in Texas?

BURKE: Those in other markets think that Texas is an anomaly that could pique interest down the road, but it will take significant time and effort for that to occur. We have several things working for Texas. ERCOT manages the grid and deregulated markets in 75 percent of the state. The public utility commission can solve wholesale, transmission and infrastructure issues that are still unsolved in many parts of the country. Texas needs to demonstrate clear success with competition. There is still healthy debate about what's viewed as success.

energybiz: TXU has outsourced a significant amount of work to Capgemini. How has that been working out?

BURKE: They have increased the service levels for the customers. We measure the service levels by the average speed of answer and first-call resolution. They have taken 30 percent of the cost out of the business for us. Being leaner and more nimble from a competitive point of view is important. We have basically cut the layering and the regulated cost structure, making it a leaner and much more competitive business.

energybiz: What is the magnitude of savings for your operation?

BURKE: About \$40 million a year and it is recurring.

energybiz: Have you downsized?

BURKE: We did our own downsizing at the end of last year. Some of our employees became Capgemini employees and some of those folks are no longer with Capgemini.

energybiz: How would you describe the corporate culture at TXU and at Capgemini? Are workers apprehensive about their job security?

BURKE: TXU overall has had a fairly decent couple of years. But in 2001, 2002 and 2003, every retailer in Texas went through a difficult market. Natural gas prices made it challenging. The culture is certainly one appropriate for a competitive environment. The belief that "we are a big player and therefore always going to be a big player" — that is gone. You can't lose eight percent to ten percent of your customers per year and expect to have a viable, ongoing business. So you have to start taking action. The people currently at TXU fully embrace the challenge of being in a competitive environment.

energybiz: You have six years of experience at Coca-Cola. How has that prepared you for the energy business?

BURKE: Actually because I was with the juice division of Coca-Cola, which is Minute Maid, I became accustomed to the commodity businesses. I dealt with commodity volatility and learned what happens to commodity prices when there is a freeze and there are fewer oranges available. What happens to

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TXU BUILD

TXU Corp. plans to invest \$10 billion to develop 8,600 megawatts of generation in Texas.

"Texans want ample generation supply, access to lower electric prices, and better air quality, and TXU will deliver all three," said C. John Wilder, TXU chairman and CEO.

TXU is the parent of TXU Energy, which provides electricity to 2.3 electric customers in Texas. TXU Power has 18,300 megawatts of generation in the state. TXU Electric Delivery operates 100,000 miles of distribution and 14,000 miles of transmission lines.

So if I can keep customers by making them feel a little bit more in control of how much they use, then I will try to keep them.



Jim Burke gets ready for a new competitive era.



commodity prices? How do you move price and do you lose market share or gain market share? But the volatility in the power industry has been much more significant. If you just look at percentage change in a given year, it's far in excess of where you could see orange juice futures move.

energybiz: Do you have an incentive to install the latest meter and demand side management technology?

BURKE: Customers leave us because they want

command of their energy costs. That's 80 percent of the reasons why people leave. People have a difficult time understanding the relationship between rates, weather and their own usage patterns. So if I can keep customers by making them feel a little bit more in control of how much they use, then I will try to keep them. Automatic meter reading is going to give us some real-time information that we can share with customers. In advance of that, we are going to have some energy monitoring devices that we are going to be piloting which give customers a chance to see how much each of the things that they are turning on and off drive the monthly bill.

energybiz: You will support new technology, even if it reduces power sales to customers?

BURKE: I have every incentive to push conservation, energy efficiency and alternative rate programs. And we do push. ☺

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