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# The Lone Star Report

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Volume 15, Issue 1

A weekly publication of the Lone Star Foundation

August 6, 2010

## PUC caps ratepayer cost with efficiency rule

by **Mark Lavergne**

After several months of deliberations, the Public Utility Commission of Texas adopted 2-1 on July 30 a new energy efficiency rule that PUC Chairman **Barry Smitherman** said contains “modest enhancements to the current program.” The rule is just one of several factors that may affect consumers’ energy bills going forward.

### The efficiency rule

American Electric Companies of Texas President **John Fainter** observed that efficiency drives up the cost of energy. “Efficiency is not free,” he said.

Indeed it is paid for by consumers, in the wires portion of their electric bills. The rule limits the amount of money that the companies can recoup from ratepayers. In 2014, the total cap will be \$150 million across the market. Each individual regu-

lated company would get a slice of that \$150 million pie depending on participation in energy efficiency programs.

The issue is similar to the one faced in Austin, where energy efficiency initiatives are expected to considerably increase consumers’ electric bills. PUC does not regulate Austin Energy.

Companies that are members of the American Electric Companies of Texas worked with commission staff and other stakeholders on the rule, Fainter said, which aimed to strike a proper balance between increasing energy efficiency and protecting consumers from big spikes in electricity bills.

The costs for energy efficiency programs, under the rule, would cost ratepayers up to \$233 million less than the rule as proposed a month ago.

The rule requires that 20 percent of new demand in 2010 and 2011 be met through

energy efficiency. That number would go to 25 percent in 2012, and 30 percent in 2013 and thereafter. In other words: the energy efficiency programs of Oncor, CenterPoint and others, would be expected to decrease the projected demand for power by 20 percent in those years.

Energy efficiency programs can include appliance upgrade programs, weather stripping, new air conditioning systems, etc. (Smart meters are not included in energy efficiency programs. They are part of a separate case.)

The efficiency programs that the new rule looks to fund are already being carried out by regulated companies like CenterPoint, Oncor, and Texas-New Mexico Power Company. Municipally owned utilities and co-ops will be exempt. The PUC is authorizing the regulated companies to increase the fees that they charge competitive retail

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## Doggett amendment among public education battles

by **Andy Hogue**

The U.S. Senate gave preliminary approval Aug. 5 to a bill which would keep about \$800 million from being disbursed to Texas in the absence of one requirement:

That the current percentage of state revenues spent on education be maintained for three years (resulting in increased school spending) – an impossibility, say some.

“No distribution shall be made” of education job funds to Texas, an amendment to the U.S. House resolution read; that is, unless Gov. **Rick Perry** certifies to the U.S. Secretary of Education that the state agrees to maintain the same level of school funding through 2013.

The specific targeting of Texas, as expected, drew some quick criticism from Perry and Lt. Gov. **David Dewhurst** — each concerned that the Governor is prohibited from committing funds prior to a Legislative appropriations bill.

This is but the latest item on a steadily growing list of potential flashpoints for the upcoming Legislative session in regard to public and higher education.

We look at the potentially explosive issues.

*\*\$800 million ‘held hostage’*

Perry and Dewhurst both classified an amendment to the U.S. Senate’s approval of H.R. 1586 (the FAA Air Transportation Modernization and Safety Improvement Act, oddly enough) as punishment for Texas’ intransigent stand against the rapid expansion of government spending.

Dewhurst called the Texas provision “Doggett language” – assuming the amendment is likely retaliation from U.S. Rep. **Lloyd Doggett** of Austin for Texas’ management of stimulus funds in 2009.

“I’m very disappointed,” the Dewhurst said, “Congressional Democrats would hold

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## PUC/from 1

electric providers in exchange for doing additional energy efficiency programs.

Smitherman, prior to the PUC meeting, circulated a memo saying the new rule, after having been revised, reflected an appropriate balance between “advancing the goals” of energy efficiency and “minimizing the impact on ratepayers.”

Commissioner **Donna Nelson** voted against the rule on Friday, noting that significant changes had been made to it and that she believed it had not been properly vetted by all stakeholders since it was filed on Tuesday. She also said that last year’s demand was reduced through energy efficiency by 36 percent compared to the 20 percent goal — which made her skeptical the mandate needed to be increased at all.

She also cautioned that federal energy efficiency goals could make PUC’s cost projections obsolete.

Smitherman noted during the discussion July 30 that the Legislature may “hopefully” give the PUC more guidance on how to balance energy efficiency and ratepayer impacts going forward next year. A lot of bills filed last year failed to pass. The debate regarding energy efficiency will be worth watching in the coming session.

The new rule will take effect Dec. 1, 2010.

Commissioner **Kenneth Anderson** expressed concern over the PUC’s current methodology for determining the success of its energy efficiency program.

“Right now we’re sort of basing it on avoided cost with a plugged in number,” Anderson said. “And we’re looking at peak itself. I wonder if the whole methodology that underlies our rule is the appropriate one.”

Last week the Texas Public Policy Foundation released a study on Texas’ energy efficiency programs which suggested that Texas ratepayers may have to pay hundreds of millions for an ineffective program.

“There is simply no way, given the existing data and methodology employed by the PUC, to properly determine the efficiency – or inefficiency – of the state’s energy efficiency program,” said Dr. **Robert J. Michaels**, professor of economics at California State University-Fullerton, and co-author of the report.

## Smart Meters

PUC announced Aug. 2 that an independent study had shown that the new advanced (or “smart”) meters are actually more accurate than the traditional electromechanical meters.

The deployment of Smart Meters had been heralded earlier this year with almost iPhone-esque hype, but followed with equally iPhone-esque buyers’ remorse as reports in late April flooded the Texas media about how some of the meters were allegedly overestimating customers’ electric usage.

“This extraordinary and comprehensive study clearly shows the superiority of smart meters compared to traditional, electromechanical meters,” Smitherman said.

Navigant Consulting (PI), LLC reported that 5,625 smart meters get it right, and only two are inaccurate. That’s 99.96 percent accuracy, compared to 96 percent accuracy of electromechanical meters.

“It is Navigant Consulting’s opinion,” the study said, “... that the vast majority of advanced meters currently installed by Oncor, CenterPoint and AEP Texas are accurately measuring and recording electric usage, as well as communicating that information through the respective advanced metering systems for use in customer billing.”

So what about the thousands of customers who immediately saw big spikes in their electric bills? The Navigant report suggests that those spikes were seen so immediately because the smart meters are better at communicating such changes. The report observes that “electromechanical meters that cease to perform to acceptable standards may go undetected for long periods, even years, whereas in many cases with an advanced meter can be detected relatively soon, if not immediately, after problems arise.”

Fainter agreed. “We were pretty confident that the meters are very accurate, but it was good to see the report verified that,” he said.

Providers, including Reliant, have started to introduce time-of-day pricing that will evolve over the coming years, PUC spokesman **Terry Hadley** said.

Fainter said nationally the grids will have to be improved, but that Texas is in better shape than other states. “It will help service to consumers and help consumers

manage their consumption of electricity better,” he said.

## Texas’ reserve margins healthy

ERCOT announced Aug. 4 that peak demand reached a record level. Yet the grid was not overloaded. A clue as to how Texas avoided interrupting any service as a result of the record demand is contained in a June 22 presentation from Smitherman looking at the state of the Texas electric market.

Among the findings: Texas’ reserve margins are healthy, despite rapid population growth. The goal of PUC and ERCOT is to have at least 12.5 percent reserve margins — in other words, to have 12.5 percent greater capacity the projected demand.

So as of the most recent ERCOT projections, Texas is expected to have 17.1 percent reserve margin come 2011.

Texas is unique among the several states because if an investor builds a power plant here, there is no guaranteed rate of return. The risk is on the investor, not the consumers.

Hadley told LSR that Texas’ deregulated market has shown the ability to respond more quickly to market conditions. “More generation was added more quickly than you would expect in a fully regulated environment,” he said.

Fainter said that market responded to the projected low reserve margins by building more capacity.

Acting like an economic projector, higher energy prices in 2008, driven largely but not exclusively by natural gas prices, provided the signal to add more capacity, Hadley said.

Would it have been different in a regulated market? The spike would still have been felt in a regulated market, but it would not have immediately been felt by electric consumers.

Most of the new plants being built in ERCOT today are freestanding wholesale companies without any connection to the old-world regulated market.

Fainter said the impacts of the actions of EPA and the current administration cannot be quantified yet, although growing awareness of potential cost could have a political impact on congressional incumbents. ☐

