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Three Lessons from the Heat Wave

August 24, 2011 | 1 comment

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By Bill Peacock

Lesson Number One: The System is Working as Planned

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As Central Texas breaks its record for the most consecutive days of 100-degree-plus weather, it's worth exploring some policy lessons in light of the heat wave.

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Before the record heat came, a record cold snap broke down numerous new generating plants that had not been tested by cold. This being Texas, we generally build our plants to survive hot weather first.

And it is a good thing we do. As House State Affairs Chairman Byron Cook said recently about this summer's challenges, "We're right on the edge. We're making it. But if a few things go wrong"

Texas is right on the edge as the winter and summer weather has pushed Texans to record electricity use. Yet even though a few things have actually gone wrong this year, we were prepared.

Protocols and procedures in place were activated when the system was strained. Businesses then residential customers curtailed their usage and reduced the load. The result? Only during a freakish winter storm under generating conditions unlikely to be repeated did Texans suffer rolling blackouts. Even then, disruptions were minimized.

Lesson One from the heat wave is that the system is working as planned.

It has done so, in large part, because of the recent construction of more than \$41 billion of new generation and transmission in Texas' world-class electricity market. Nowhere else in the country – or perhaps in the world – can one find a more robust, competitive marketplace for electricity. While critics have panned the shift toward competition over the last decade or so, the facts clearly show that despite a rapid growth in demand, Texans have a more abundant supply of cheaper electricity than under the fully-regulated market prior to 2002. However, the thin generation margins we have experienced this year have heightened calls for changes in Texas' energy-only market.

Texas' market-based approach benefits consumers because investors have to bear the cost of new generation – in other systems consumers pay these costs. Despite this obvious benefit, there are concerns that the system has resulted in prices that are too low to provide incentive for investors to build sufficient new generation.

The solution being offered to this problem is to subsidize new generation by raising electricity prices.

However, this misses the crucial point that it is government intervention– mainly wholesale price caps, reliability measures, and subsidized wind-energy – that is artificially lowering prices. More government will not solve the problem.

Lesson Two of the heat wave is that building the Competitive Renewable Energy Zone transmission lines to West Texas is going to cost more than its worth. The Legislature authorized these lines to transmit wind-generated electricity to central and east Texas where demand is the highest. However, it seems unlikely that there will be enough wind-generated electricity to fully use the capacity of these lines when they reach their destinations.

Additionally, the heat wave has shown us the limitations of West Texas wind, which doesn't always blow when we need the electricity during peak afternoon hours.

ERCOT President Trip Doggett explained the problem recently, "As our load is ramping up in the late afternoon, coastal wind is ramping up during those hours," unlike West Texas wind which tends to blow at night." Doggett added, "The diversity of coastal versus West Texas wind is an advantage to us in operating the grid."

Yet the \$6 billion to \$7 billion worth of CREZ lines that Texas consumers will be paying for are headed for West Texas, not the coast.

Which brings us to Lesson Three: Texas has the most remarkable electricity market in



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the world that is helping drive the most remarkable economy in the United States. We should let the market work.

Bill Peacock is the Vice President of Research and Planning and Director of the Center for Economic Freedom at the Texas Public Policy Foundation, a non-profit, free-market research institute based in Austin.

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