

Affordable, Reliable Energy

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 Freedom

As gasoline prices continue to drift between \$2 to \$3 a gallon and Texas electricity prices fluctuate along with natural gas prices, how to achieve affordable yet reliable energy is a highly debated topic. Proposed and enacted solutions run from higher taxes and subsidies to mandated production from renewable sources such as wind, ethanol and biomass. However, these all miss the mark. A long-term solution for securing affordable, reliable energy supplies must rely on a proper understanding of our current situation and market-based innovations.

First, energy prices are not as bad as they are made out to be. Even at \$3 a gallon, the price of gasoline and oil does not surpass historical highs, and American gasoline prices are still well below those found in most of Europe. Deregulation has helped electricity prices withstand a major price shock from natural gas, keeping Texas rates in the middle of the pack of those states that rely heavily on natural gas for generation and below many East Coast states. So while energy prices are higher than we are used to, Texans are in relatively good shape compared to many others.

Second, it must be understood that the energy problems we face today are largely the product of government regulations and interference in the marketplace. For instance, Texas' heavy reliance on high-priced natural gas to produce electricity came about because of mandated production goals and environmental laws that made it expensive and difficult to build coal and nuclear plants. Similarly, the high price of oil and natural gas can be linked to regulations such as the limitation on exploration and production

of domestic reserves of oil and gas, and the mandated use of ethanol for creating boutique gasoline blends for use during summer.

Third, efforts to promote energy diversity by mandating electric generation with renewable energy facilities only add to already high energy costs. The SB 20-mandated 3,000 megawatt increase in the renewable energy portfolio could cost Texas utility customers as much as \$536 million annually when fully implemented. That is the equivalent of \$31 per year for the typical consumer.

Fourth, restricting certain types of generation out of misplaced concerns for the environment will add significant costs to electric rates. Some have said that we shouldn't build new coal-fired generation plants because of concerns about global warming and air quality. However, current plans show that the new plants, when combined with older plants taken out of production or refitted with additional pollution controls, will actually reduce air emissions. History bears this out. Since 1980, national-average air pollution levels have dropped significantly while at the same time coal consumption, car miles, and diesel truck miles have all increased.

Additionally, Texas' plans for using coal are on track with just about everyone else in the world. Coal is making an enormous revival, with approximately 150 new coal-fired plants proposed in the U.S. China is building approximately one new plant per week, and there is a significant return to coal in countries such as Japan, Germany, and the United Kingdom.

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With Texas facing a potential reliability crisis in a few years, the last thing we want to do is add significant costs by dictating what types of generation can and can't be built. If we do this, while at the same time reducing retail profits through renewed price controls, we will be heading down the road to California-style blackouts and high prices.

THE FACTS

- In 1918, the price of a gallon of gasoline was about \$3.20 in 2005 dollars. After trending downward for about 50 years, the price spiked again in 1981 at just under \$3.00. The price of gasoline has only reached that level recently because of Hurricane Katrina and new federal energy subsidies and regulations.
- Rates in Texas are decreasing. The latest figures show that the average residential price for electricity in October was 12.89 cents/kWh, down from 13.21 cents/kWh in September.
- Consumers in most areas of the state can now purchase electricity near or below the national average.
- When looking at states with a similar fuel-mix, Texas electric prices are in the middle of those nine states with greater than 40 percent gas-fueled generation.
- New coal technologies—coal to gas, IGCC, carbon sequestration—are unproven technologies still in the development stage. They won't be commercially viable after 2015 at the earliest.
- Coal is making an enormous revival. Texas' plans for coal are on track with others:

- Approximately 150 new coal-fired power plants have been proposed in the U. S., most are conventional;
- Over 800 new coal-fired power plants are being built or proposed worldwide;
- China is building approximately one new coal-fired power plant a week; and
- There has been a significant return to coal in Japan, Germany, and the United Kingdom.
- Texas' CO₂ emissions efficiency is rapidly increasing, growing from \$102 of Gross State Product for every ton of CO₂ produced in 1963 to \$1,034 in 2001.

RECOMMENDATIONS

- Streamline the permitting process for new electrical generating production facilities, including coal and nuclear, in order to promote diversity and reduce reliance on natural gas.
- Let the market determine the best allocation of production capacity so that producers, not consumers or taxpayers, bear the risk of new investments in production.
- Do not mandate or subsidize costly and/or inefficient generation such as wind, coal-to gas, and carbon sequestration.
- Maintain full deregulation of the retail electric markets.

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