

AFFORDABLE & RELIABLE ENERGY: AN ENERGY POLICY FOR TEXAS

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THE ISSUE

How to secure a reliable supply of affordable energy is hotly debated in Texas and at the national level. Proposed and enacted solutions run from higher taxes and subsidies to mandated production from alternative fuel 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.

Texas has prospered in recent years as its population and economy has grown. One reason for Texas' economic progress is the reliable and affordable supply of electricity available to meet the state's growing energy needs. Thus our continued economic growth, and the prosperity it brings and spreads, relies upon continued growth in available power.

Texas' deregulated electricity market—the most competitive market in the United States—provides Texas with the infrastructure to meet this needed increase in energy supplies. However, current or future environmental regulations, market regulations, or mandates/subsidies for different energy sources threaten the development of the necessary energy resources.

THE FACTS

The Electric Reliability Council of Texas (ERCOT), which manages 85 percent of the state's electric load, estimates the following:

- ★ Texas' population is projected to increase from 24.3 million to 29.7 million by 2020 and to 40.1 million by 2040.
- ★ The average annual growth rate for peak energy will be 1.8 percent over the next 10 years (for a total of 374,740,989 MWh of energy in the ERCOT region in 2018) and 1.59 percent from 2008 to 2025.
- ★ Total peak energy demand will rise to 99,093 megawatts (MW) by 2028, up from 2008's summer peak demand forecast of 64,927 MW.

RECOMMENDATIONS

Developing Future Energy Supplies

- ★ Make the marketplace the mechanism for determining the future energy—the state shouldn't be in the business of picking what technologies or fuels should power Texas' future energy needs.
- ★ Remove/avoid regulatory impediments that interfere with the transmission of pricing information and efficient selection of fuel mix, including:
 - ★ Mandates/subsidies for specific fuel use:
 - ★ requirement that 50 percent of new generation be natural gas, and
 - ★ the Renewable Portfolio Standard (RPS).
 - ★ Regulations that improperly inhibit use of certain fuels (new ozone standards, restrictions on carbon emissions, etc.).
- ★ Acknowledge the necessity and economic benefits of fossil fuels in meeting the future of Texas' base and peak loads.

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Governance: Environmental and Market Regulation

- ★ The state's energy policy should focus on Texas' competitive advantages and our unique vulnerability to economic harm from regulation of the energy sector.
- ★ Texas should participate in carbon regulation talks at the federal level without encouraging the adoption of regulations; stay involved, and lead the way to market solutions to our environmental challenges. Do not adopt state-based regulations.
- ★ Utilize the market-based response to public concern about global warming that is allowing the U.S. and Texas to lead the world in reducing growth of CO2 emissions.
- ★ Maintain and improve upon current pricing mechanisms that transmit energy and regulatory costs through the marketplace.
- ★ Maintain the current regulatory structure of the Texas electricity market; resist temptation to regulate competitive behavior.
 - ★ Avoid/eliminate restrictions or mandates on wholesale or retail market share.
 - ★ Avoid/eliminate price caps on the wholesale and retail electricity markets.
 - ★ Maintain Texas' successful energy-only market: do not revert back to even a limited-capacity market.

Energy Efficiency and Demand Management

- ★ The state shouldn't mandate energy efficiency; the market should be the mechanism for achieving future energy efficiency gains.
- ★ Discriminate between two potential sources of energy efficiency:
 - ★ *market sector efficiency gains* that generate cost savings for consumers vs. *government-mandated efficiency measures* that increase consumer costs (e.g., building codes, mandatory smart meters, etc.).
- ★ Implement and maintain pricing mechanisms that allow efficiency gains and demand management to be based on market incentives (e.g., congestion pricing).

Infrastructure & Transmission

- ★ Maintain efforts to reduce congestion costs (e.g., nodal pricing and the day-ahead market).
- ★ Allow for the assignment of non-energy costs to the sources causing those costs:
 - ★ Ensure efficient placement of new generation by implementing market-based pricing/incentives into construction of transmission to reduce uplift of transmission costs.
 - ★ Implement market-based pricing mechanisms that allow costs associated with the unreliability of wind power—such as ancillary services and faster-ramp-rate power plants—to be borne by wind generators.
- ★ Don't mandate technology for smart meters or socialize costs of deployment.
- ★ Assess the full cost of alternative energy sources such as wind and other renewables.

RESOURCES

- *Texas Electric Meter: Measuring the Effects of Electricity Deregulation* by Bill Peacock, Texas Public Policy Foundation (Mar. 2008) <http://www.texaspolicy.com/pdf/2008-03-RR02-ElectricMeter-proof.pdf>.
- *Wind Energy: The Right Tool for the Right Job?* by Jeff Pollock, Texas Public Policy Foundation (Mar. 2008) <http://www.texaspolicy.com/pdf/2008-03-25-windprimer-Pollock%20Slides.pdf>.
- *Power for the Future: The Debate Over New Coal-Fired Power Plants in Texas* by Sterling Burnett, Texas Public Policy Foundation (Jan. 2008) http://www.texaspolicy.com/publications.php?cat_level=109.
- *Affordable Energy and Clean Air: Texas Can Have Both* by Joel M. Schwartz, Texas Public Policy Foundation (Nov. 2007) <http://www.texaspolicy.com/pdf/2007-09-PB35-AirPollution-schwartz.pdf>.
- *Q&A on the Texas Electric Market* by Bill Peacock, Texas Public Policy Foundation (Apr. 2007) <http://www.texaspollicom/pdf/2007-04-PB17-Q&A-bp.pdf>.
- *Competition in Texas Electric Markets: What Texas Did Right and What's Left to Do* by Robert Michaels, Texas Public Policy Foundation (Mar. 2008) <http://www.texaspolicy.com/pdf/2007-03-RR07-electric3-rm.pdf>.
- *Texas Wind Energy: Past, Present, and Future* by Drew Thornley, Texas Public Policy Foundation (Oct. 2008) <http://www.texaspolicy.com/pdf/2008-09-RR10-WindEnergy-dt-new.pdf>.

