

Making Electricity More Expensive: Texas' Energy Efficiency and Renewable Energy Programs

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Since 2002, Texas consumers have paid \$591.1 million to support the state's energy efficiency program. The 2009 cost was \$104.8 million, and the program's estimated cost for 2010 is \$114.8 million.

A recent increase to the program by the Public Utility Commission of Texas will probably double these costs. An earlier PUC proposal would have cost \$400 million to \$500 million. Several proposals from the last legislative session would have caused a similar increase in costs.

All of this would be okay, of course, if the state's energy efficiency program saved consumers money through reduced consumption of electricity. However, the available evidence suggests that this is not the case. As stated in our recent report on the state's program:

When reasonable assumptions are applied to the Public Utility Commission's data, the potential returns of Texas' energy efficiency program range from 86.3 percent to -11.3 percent. There is simply no way, given the existing data and the methodology employed by the PUCT, to properly determine the efficiency—or inefficiency—of the state's energy efficiency program.

There are three major flaws with the state's energy efficiency program that lead to this problem.

First, Texas is almost alone among the states in using a "Program Administrator Cost Test" (PACT) to evaluate its efficiency programs. The problem with the PACT is that it incorrectly evaluates the costs of our efficiency program, and its bias is entirely in one direction—toward acceptance of projects because their costs are uniformly understated.

Second, on the benefits side, the state incorrectly measures the savings from our efficiency programs by includ-

ing the present value of a gas-fired plant and the associated energy output that are rendered unnecessary by incentive payments. This is known as the capacity factor. Under conditions that prevail in Texas, however, there are reasons to question full inclusion of the capital cost of an unbuilt generator in the savings. The inclusion is questionable because it does not consider alternatives whose cost is likely to be much lower than the cost of building the generator.

Third, the final problem with Texas' energy efficiency program is that it is designed to reduce electricity use, and generally accomplishes that by making electricity more expensive. This is in total contrast to the market-based energy efficiency that has occurred throughout history that has made electricity *less* expensive to use so that we could use *more* of it. This makes sense because there is almost a one on one correlation between the increased wealth and health of society and the increased use of energy.

This same flaw also plagues the state's subsidies of renewable energy through the renewable portfolio standard, CREZ lines, and tax breaks.

The recent and repeated records of peak demand show clearly that the market can handle the increased demand for electricity in the state. It also shows that what Texans want is more, less expensive electricity, not less, more expensive electricity.

If Texas wants to reduce energy costs and save money for Texas consumers, it needs to go back to the drawing board and make significant changes to the energy efficiency program and eliminate the Renewable Portfolio Standard. ★