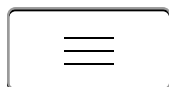




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Peacock: Profits, not subsidies, will keep the lights on in Texas

Posted: 6:00 p.m. Tuesday, May 20, 2014

By Bill Peacock - Special to the American-Statesman

Despite some claims to the contrary, recent news reports attest to the viability and reliability of the Texas electricity market.

The Electric Reliability Council of Texas says that generation capacity will be sufficient for at least the next four summers, the market is operating smoothly despite the bankruptcy of Energy Future Holdings, and revenues from generation are surging at NRG.

All of this is good news. However, Texas can do even better in ensuring the market's health by increasing competition and reducing government intervention.

There have been two competing trends since Texas introduced competition into its electricity market in the late 1990s. Competition in the market has significantly increased the market's efficiency, but increased

regulation and subsidies have pushed the market toward less efficiency.

Subsidies for renewable energy are one of the main causes of reduced efficiency. The Texas Public Policy Foundation estimates these subsidies to have cost taxpayers and consumers \$11.8 billion since 2006. They have also artificially depressed prices so that traditional generators have earned less revenue that might be plowed back into new generation to increase reliability.

Perhaps even more harmful is the Public Utility Commission's obsession with a concept known as market power. Based on academic models of perfect competition, market power is often defined as the ability to charge prices above marginal cost. Under certain circumstances, a generator that consistently sells electricity above its marginal costs could be charged by regulators with market power abuse, which is illegal in Texas.

Of course, generators who don't sell their electricity above marginal cost will soon go broke, since they can't recover their capital investment in new generation. So at the same time generators are complaining about not earning enough money to build new generation, the regulators' paean to market perfection is artificially suppressing prices.

Rather than acknowledging its role in harming reliability in the market, the PUC often just proposes more regulation. One recent proposal was for a capacity market, which would have given subsidies to generators for maintaining generation capacity, funded by an electricity tax of \$3.2 billion on consumers.

Fortunately, the good market news has at least momentarily stalled the push for a capacity market. However, two projects at the PUC have the potential for causing more problems.

One is the PUC's project to examine the current reliability standard for the Texas market. If the PUC increases the standard, it could create the appearance of a shortage that doesn't really exist and renew the push for a capacity market. The second project is based on a petition, filed by Raiden Commodities, that would eliminate an exemption for small generators. Though it is unlikely that the PUC will accept the petition as filed, the petition may move the discussion about market power in the wrong direction.

It shouldn't be illegal to make a profit selling electricity in Texas. But neither should profit be guaranteed. The Texas Legislature can eliminate these problems and help keep the lights on in Texas by eliminating subsidies for renewable energy, reducing market power regulation, and banning a capacity market.

Peacock is the vice president for research and director for the Center for Economic Freedom at the Texas Public Policy Foundation, a nonprofit, free-market research institute based in Austin.

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Beware of predators who are more concerned about increasing their profits at the public's expense. This article is about forming public opinion to support a failed market system with selected information and the threat of uncertain weather conditions. Market systems for public utilities need adult supervision to protect the public when a few private utility companies stand over the public's access to electricity. Remember how Enron sucked the

stuffing out of people in California by shutting down power plant to reduce supply. Their first priority is profit and then serving the public. Remember, they don't want competition but monopoly power over the public.

8:33 a.m. May. 21, 2014

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