

Regulation of the Texas Electricity Market



The Issue

The state of Texas' world class electricity market has never been healthier. The average offer price for new service is about 10.5 cents per kWh, while the average of the 20 lowest offers is around 7.5 cents per kWh.

In addition, projections for reserves are as good as they've ever been. The current reserve margin of 16.5% is expected to reach 25.4% by 2018 and stay above 16.6% through 2025.

Today's low prices and high levels of reserves are the result of many factors, such as the low price of natural gas. But there are also many instances where prices are artificially lowered through government interference. For example, renewable energy subsidies have artificially lowered the price of electricity thanks to supporting wind power. However, consumers still pay for the electricity generated by wind, meager compared to the demand for power, through higher taxes.

Another type of interference in the market comes from various forms of price regulation and manipulation. Levying a variety of charges against energy companies, such as market power abuse, and based on the theory that making profit off energy is somehow wrong, a variety of measures were used to control prices, up to a hard price cap that exists today.

The problem with the cap for example is that it reduces prices at times of peak demand, when electricity is the most expensive to produce. If generators can't sell electricity at a profit at times of peak demand, they won't build generation plants that will supply electricity when we need it most.

Calls to "fix" Texas' electricity market with more government and meddling with our "energy only," i.e., free-market, approach to generating electricity won't help—in fact, they will make electricity more expensive for consumers. The question is whether a few policymakers and regulators in Austin can somehow make better decisions about how to deal with those challenges than the collective and cooperative decisions of millions of producers and consumers in the marketplace. The appropriate long-term approach to Texas' energy market is not to regulate the market more, but to regulate it less.

If we let it work, the world-class Texas electricity market will power Texas' future.

The Facts

- Regulations such as price caps distort market forces; those distortions lead to more regulation, unless the cycle is consciously stopped.
- Renewable energy subsidies only benefit investors; consumers are forced to pay for the discounts in energy with higher taxes.
- Texas' electricity market has helped the state become the best environment for business in the nation.

Recommendations

- Eliminate wholesale price caps.
- Eliminate the ability of the PUC to disgorge revenue.
- Eliminate the PUC's emergency cease and desist authority.
- Define more clearly the concept of market power and market power abuse.
- Make compliance with the Renewable Portfolio Standard voluntary and support elimination of the federal production tax credit.

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Resources

"Texas' Electricity Market can Power Our Future" by Bill Peacock, Texas Public Policy Foundation (July 2012).

HB 2133: Don't Ruin the Texas Electricity Market by Bill Peacock (May 2011).

[Competition in the Texas Electricity Market](#) by Bill Peacock (March 2011).

[Texas' Renewable Energy Experiment](#) by Bill Peacock (Dec. 2010).

