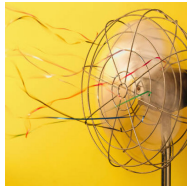




## Regulation of the Texas Electricity Market



### The Issue

Today's low prices 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.

Investment in new electrical generation has slowed as price signals, i.e., low prices, have caused companies to shy away from Texas. Critics blame the lack of new generation on the market. However, the market is not the problem.

Another external source leading to reduced investment has been various forms of price regulation. Despite the obvious benefits of the Texas market, some still feel that the ability for prices to shift will hurt consumers. 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 ending 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 solution to Texas' energy issues is not to regulate the market more, but to regulate it less.

There are real challenges facing Texas' competitive electricity market. First, the market has become more efficient, especially after the move to nodal, so profits are harder to come by. Second, on top of this, we have greater government intervention in the market, largely in the form of wind energy (which has increased significantly since deregulation began), wholesale price caps, and interventions in the real time/non-spin markets. All three have pushed prices and profits artificially low and created significant regulatory risk.

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. 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.
- Eliminate Renewable Portfolio Standard and support elimination of the federal production tax credit.

### Resources

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

*Competition in the Texas Electricity Market* by Bill Peacock, Texas Public Policy Foundation (Mar. 2011).

*HB 2133: Don't Ruin the Texas Electricity Market* by Bill Peacock, Texas Public Policy Foundation (May 2011).

*Texas' Renewable Energy Experiment* by Bill Peacock, Texas Public Policy Foundation (Dec. 2010).

