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Texas power capacity market debate falls on doorstep of state legislators

By Christine Cordner

With the Public Utility Commission of Texas awaiting more information to guide its power resource adequacy discussion, Lone Star State legislators over the past month have become the target for informational campaigns by those for and against the installation of a forward capacity market.

Looking for further proof to support their differing viewpoints, the parties involved in the campaigns grabbed on tightly to the two energy emergency alerts, or EEAs, called by the Electric Reliability Council of Texas Inc. on Jan. 6 when cold weather downed generation and tightened supply but firm load interruptions were avoided.

Power producers calling for a new capacity market to spur plant construction say the EEA event shows the state has a need for generation to avoid blackouts, while consumer advocates argue that the event confirms the state has enough capacity since no firm load was shed. ERCOT is investigating what happened to units that tripped, having last seen winter firm load interruptions in February 2011.

The Texas Legislature is not in session this year, meaning there will be no opportunity for hearings on the EEA event or other resource adequacy issues until 2015. Legislators, however, have been vocal about not having the PUCT move ahead on wholesale market changes without their support, especially since it remains unclear whether the regulators have the power to do so under the state's Public Utility Regulatory Act as PUCT Chairwoman Donna Nelson believes.

Aware that opposition from legislators could sink hopes for the PUCT approving a capacity market, a generator trade group, Texans for Reliable Power, or TFRP, took out an advertisement in the *Austin American-Statesman* newspaper following the EEA event. The full-page advertisement showed a black Lone Star State outline, with text urging policymakers to take action to avoid rolling blackouts. "With low temperatures earlier this week, we narrowly escaped rolling blackouts. We won't be so lucky in the years ahead if we don't take action now," it read.

TFRP is comprised of NRG Energy Inc., NextEra Energy Inc., Calpine Corp. and Exelon Corp., the same generators that have long been pushing a capacity market at the PUCT but have not been successful so far in getting a vote, even on mandating a power reserve margin.

The nonprofit research institute Texas Public Policy Foundation, or TPPF, fired back Jan. 27, submitting five filings to utility regulators in which it outlined its continued opposition to a capacity market. Included was a Jan. 19 op-ed piece in the Austin American-Statesmen in which Kathleen Hunker, a TPPF policy analyst, took aim at the advertisement.

"Their solution to avoid future close calls is to subsidize their companies' operational expenses through a capacity market that replaces competition with subsidies to generators. Like most sales pitches, however, the ad melts under the heat of honest scrutiny. Texas is not running out electricity. Texas' competitive market has consistently provided Texas with an affordable, reliable supply of electricity," Hunker wrote. "This past cold snap was no different."

Hunker added that Texas did not skirt a power emergency because of insufficient generation reserves. Instead, demand was only 55,265 MW when ERCOT announced the alert, much less than the amount of installed generation in Texas and less than demand seen Jan. 7 when no EEA was issued because power supplies remained readily available.

Hunker pointed out that Texas' issues that day were due to "unreliable wind generation dropp[ing] off the grid when it was needed" as well as plants going offline due to poor weatherization or being already offline due to scheduled maintenance. "In other words, ERCOT controlled an adequate supply of capacity above the suggested reserve margin, but unexpected disruptions made that capacity temporarily inaccessible. These types of mishaps will not be cured by re-regulating the electricity industry under a capacity market," she wrote.

Having debated capacity market opponents many times on paper before the PUCT, TFRP responded with a Jan. 28 letter sent to all members of the state's House of Representatives and Senate. While not discussing the EEA event, the group broadly addressed what it sees as misinformation by capacity market opponents, calling out TPPF specifically.

"Today, most leading experts and independent consultants agree that the current Texas electric market is not capable of ensuring a reliable power system in the future. Texas growth is moving faster than the market, with electric demand outpacing supplies, limited capital to invest in new power plants, and federal EPA rules threatening to curtail existing power plants in Texas and elsewhere," TFRP said. "Fortunately, the PUCT is reviewing a number of options to ensure ERCOT maintains the traditional level of electric reliability that individual Texans and businesses demand. However, some third-party advocacy groups, 'think tanks' and big electricity users deny there is a problem or oppose certain solutions and are making statements that are either downright wrong or grossly misleading."

Aware that legislators are focusing on the big picture issue of electric bill impacts for their constituents, TFRP provided the legislators with brief rundowns of what it sees as myths such as that a capacity market will cost ratepayers $4 billion annually, as estimated by those opposed to such a market. "The cost of power is essentially the same whether consumers pay more for high priced power when the grid is facing shortages or they buy reliability through additional resources that produce shortage-free stable, low cost power," the group said.

TFRP also did not want Texas legislators to be swayed by the presumption that any decline in forecasted electricity load growth within the ERCOT region means

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Sources

- Industry Document: Letter from Eric Bearse *1/28/2014*
- Industry Document: Energy & Environment *1/27/2014*
- Industry Document: Is This Our Future? *1/24/2014*

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TFRP also did not want Texas legislators to be swayed by the presumption that any decline in forecasted electricity load growth within the ERCOT region means that the PUCT should pass on installing a capacity market. ERCOT later this year will unveil its latest capacity, demand and reserves, or CDR, report using new load forecasting methodology. A preliminary forecast, unveiled Jan. 22, showed an over-forecasting of load growth from previous CDR reports, a sign that a final CDR report could show planning power reserve margins shrinking less drastically as expected over the coming decade.

"It takes approximately three years to build the most efficient gas-fired power plants and the current energy only market is not providing proper investment signals. Moreover, if ERCOT has a resource surplus, adopting a capacity market now means capacity prices will be very low or zero, and puts in place the best mechanism to ensure future resource needs are timely achieved," TFRP said.

The group said the cost of new generation entry into the Texas power market is currently above $60/MWh, but average annual prices in ERCOT are in the mid-$30/MWh range. "These price levels are not expected to change for the foreseeable future due to the abundant supply of natural gas," it said.

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