2019-20

LEGISLATOR'S GUIDE to the Issues

Regulation of the Texas Electricity Market

The Issue

The state of Texas' world class electricity market demonstrates the benefits of competition. The average offer price for new service is about 11.6 cents per kWh, while the average of the 20 lowest offers is around 9.3 cents per kWh. In addition, projections for reserves are as good as they've ever been. The reserve margin is about 11% and has proved adequate during 2018's hot summer despite the closure of three coal plants.

Today's affordable prices and adequate 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. One such effort to control prices is the hard price cap on wholesale prices. 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.

Other means of interference with wholesale prices include ancillary services and the operating reserve demand curve (ORDC).

Though the system of ancillary services operated by the Electric Reliability Council of Texas (ERCOT) was designed to ensure adequate supplies of energy, what has too often happened instead is that it has reduced the prices during peak times needed to bring new investment in generation. The lower prices led generators to push for the adoption of ORDC, which is designed to artificially increase prices.

Calls to "fix" Texas' electricity market with more government and meddling with our "energy only," i.e., free-market, approach to generating electricity always make electricity more expensive for consumers. 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.

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, Texas Public Policy Foundation (May 2011).

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

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

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