



HB 2908

Shining the Light on the High Cost of Renewable Energy Subsidies

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Purpose

CSHB 2908 requires the Public Utility Commission of Texas to study the distortion in electricity pricing in the ERCOT (Electric Reliability Council of Texas) power region caused by the federal Production Tax Credit (PTC) and report its findings to the Texas Legislature.

Background

The Production Tax Credit (PTC) is a federal subsidy that provides a \$23 tax credit for each megawatt-hour of renewable energy sold. The PTC will cost U.S. taxpayers approximately \$65 billion in foregone revenue before it fully phases out in 2030 as currently scheduled. In 2017 the PTC cost taxpayers \$4.2 billion. This subsidy primarily benefits a few major energy corporations. Only 15 companies account for more than three-fourths of all PTC eligibility—more than \$19 billion in 10 years (2007-2016).

The PTC distorts electricity markets. Combined with depreciation it can represent as much as 70 percent of a wind farm's capital cost. The PTC results in negative prices, increases costs for other energy producers, and decreases reliability of the grid. These distortions are leading to widespread reliability problems in Texas' electricity market and are the primary cause behind concerns about recent declines in ERCOT's forecasts of summer reserve margins; the latest forecast shows a 7.4 percent margin for the summer of 2019.

In response to these concerns, the PUC commissioners recently ordered ERCOT to "implement a .25 standard deviation shift in the loss of load probability (LOLP) calculation using a single blended ORDC curve as soon as practicable with a second step of .25 in the spring of 2020." The ORDC, or Operating Reserve Demand Curve, is an administrative pricing mechanism that ERCOT can use to artificially increase electricity prices for all Texas consumers. The PUC "estimated that the change would increase

wholesale power costs by nearly \$80 million over two years, assuming that new power plants come online to boost supplies, old plants stay online for longer than they would have otherwise and people react to higher prices by cutting their consumption." However, the actual costs could be much higher.

Generation owners, for example—who will benefit from this change, have suggested that the costs may be much higher. Exelon estimated that a shift of one standard deviation in the LOLP would result in price increases totaling \$4 billion, so the PUC's order for a 50 percent shift over two years translates to roughly \$2 billion in annual price increases. This is also close to the Texas Industrial Electric Consumers estimate of \$2.5 billion. These estimates are based on the additional costs to customer bills had Exelon's proposal been in place in the summer of 2018.

Analysis

The basis of HB 2908 is simple. The PUC and ERCOT "shall study potential rules, operating procedures, and protocols to eliminate or compensate for any distortion in electricity pricing in the ERCOT power region caused by a federal tax credit provided under 26 U.S.C. Section 45." 26 USC Section 45 refers specifically to the PTC. As part of the study, the commission must request comments from interested parties. The findings of the study must be reported back to the Texas Legislature by January 15, 2021.

Recommendations

From 2006 through 2029, we estimate that renewable energy generators in Texas will receive about \$28 billion in subsidies or credits from federal, state, and local governments. Put another way, taxpayers and consumers are being forced to pay over \$1 billion a year for 24 years to a multi-billion-dollar industry for the benefit of receiving expensive, unreliable energy. This study is a first step to shining a light on these high costs. ★