Texas Public Policy Foundation

Energy

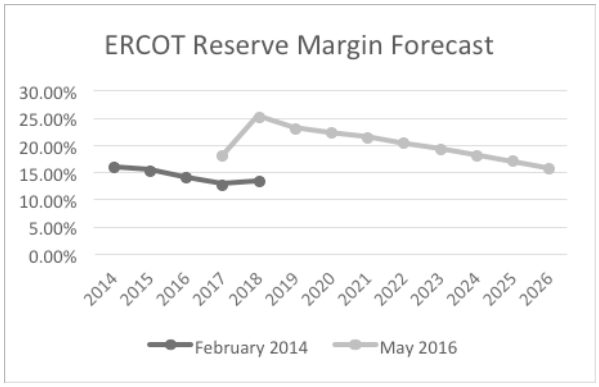
Legislator's Guide to the Issues 2017-18

Resource Adequacy

The Issue

Forecasts in 2012 of diminishing resource adequacy set the stage for a push by generators and the Public Utility Commission of Texas (PUC) to vastly increase government intervention in Texas' world-class electricity market. A more accurate assessment of the data since then has debunked the notion that Texas needs to adopt a capacity market with subsidies to generators as high as $4 billion a year—on top of what Texans pay for electricity.

In May 2016, the Electric Reliability Council of Texas (ERCOT) forecast historically high levels of reserves: 18.2% for 2017 (as opposed to a 12.84% forecast in 2014), and 25.4% for 2018 (almost double the forecast made for that year in 2014). Thanks to its competitive electricity market, Texas has adequate resources to power Texas' growing economy for at least the next 10 years. The Foundation's research substantiates the underlying reason for future resource adequacy; new investment in generation is generally profitable and sufficient to keep up with increased demand.



As lawmakers deliberate this issue in 2017, the facts will show that Texas' competitive electricity market is working. The low electricity prices in Texas are the best evidence that Texas has an adequate supply of electricity; the law of supply and demand tells us the low prices are the result of excess supply over demand. Texas can ensure sufficient generation of electricity for years to come and improve reliability by letting competitors compete and reducing intervention in the market.

The Facts

- Texans use about 350 million megawatt hours (Mwh) of electricity a year; reliability issues involve perhaps only 1.5 million Mwh, less than 0.05% of annual use.
- Peak use is slowing, diverging from economic growth because of market innovation in demand response.
- Texas' competitive market is already maintaining resource adequacy and improving reliability, both on the supply and demand sides.
- No evidence shows capacity markets boost capacity; from 2007-11, capacity payments in PJM (the mid-Atlantic grid) funded about a 4% increase in generation while generation in Texas' energy-only market grew about 12%.
- A capacity market in Texas would result in an "electricity tax" on consumers of about $3.2 billion annually. Payments from consumers through the tax would mainly be used to increase the profitability of electricity generators and Wall Street investment firms, not to fund new generation.

Recommendations

- The PUC and ERCOT should not manipulate the operating reserve demand curve to increase revenue for generators.
- The PUC should eliminate the high system-wide offer cap.

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- The PUC and ERCOT should more closely evaluate the ability of current and potential market driven demand response to handle peak load strains on the system.
- The Texas Legislature should prohibit a capacity market in statute.
- The Texas Legislature should reevaluate both the board structure of ERCOT and the PUC's reach into ERCOT's operations.
- The Texas Legislature should reorient/eliminate the Independent Market Monitor and the regulation of market power abuse.
- The Texas Legislature should reduce the PUC's excessive regulatory authority and eliminate the Texas Renewable Portfolio Standard.
- Texas policymakers should oppose the reinstatement of the federal Production Tax Credit.

Resources

Report on the Capacity, Demand and Reserves in the ERCOT Region, 2017-2026 by the Electric Reliability Council of Texas (ERCOT) (May 2016).

Debunking the Myth: Texas is Not Running out of Electricity—The Generators by Bill Peacock, Texas Public Policy Foundation (Feb. 2014).

Texas' Competitive Capacity Market by Robert Michaels, Texas Public Policy Foundation (Jan. 2014).

Electricity in Texas: Markets, not Manipulation by Bill Peacock, Texas Public Policy Foundation (Jan. 2014).

The Reliable Texas Electricity Market: Resource Adequacy Hype Doesn't Fit the Facts by Bill Peacock, Texas Public Policy Foundation (Oct. 2013).

Capacity Markets Represent a Bad Bargain for Texas Consumers by Kathleen Hunker, Texas Public Policy Foundation (Oct. 2013).

There and Back Again: The High Transition Costs of Electricity Regulation by Kristin Cavin and Bill Peacock, Texas Public Policy Foundation (Oct. 2013).

Competition is Working in the Texas Electricity Market by Bill Peacock, Texas Public Policy Foundation (Sept. 2013).