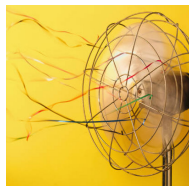




Resource Adequacy



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.

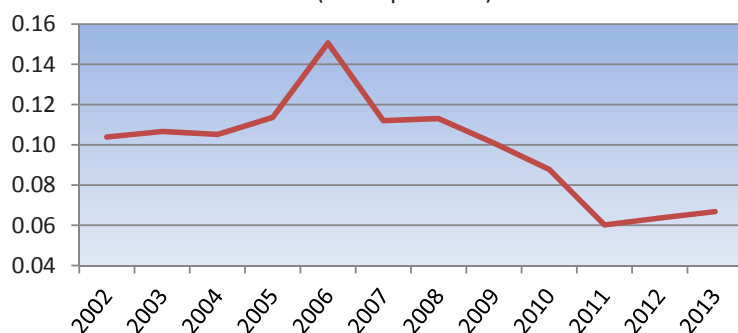
The push away from competition and toward a capacity market was based on an overreaction to 2012's faulty projections about the reliability of the market. Despite the past trend of underestimating resource adequacy in official projections, new numbers from the Electric Reliability Council of Texas (ERCOT) show that Texas has adequate resources to power Texas' growing economy for at least the next five or six 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.

| ERCOT February 2014 Reserve Margin Forecast | | | | |
|---|--------|--------|--------|--------|
| 2014 | 2015 | 2016 | 2017 | 2018 |
| 16.0% | 15.42% | 14.11% | 12.84% | 13.43% |

ERCOT's February 2014 forecast of increased reserves confirmed that there is no need to impose a capacity market, supported by a \$3.2 billion electricity tax, onto Texas consumers. A capacity market would provide consumers no appreciable benefit. Texas' competitive market has reliably supplied ERCOT with the energy it has needed, and more government intervention, especially in the form of a capacity market, will not improve reliability.

The PUC has backed away from its efforts to adopt a capacity market and to make the projected reserve margin mandatory. This is as it should be; the Legislature—rather than the PUC—is the proper place to make the final call on a policy that would undo 20 years of movement toward competition in the Texas electricity market. As lawmakers deliberate this issue in 2015, the facts will show that Texas' competitive electricity market is working. In fact, the low electric-

Lowest Available Texas Electricity Prices
(cents per kWh)



ity prices in Texas today 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.

All is not perfect, though, in the electricity market—renewable energy subsidies and excessive regulation continue to negatively impact the reliability of the market. But by following along the path that has made the electricity market in the Electric Reliability Council of Texas (ERCOT) region so successful—letting competitors compete and reducing intervention in the market—Texas can build on its strong foundation and ensure sufficient generation of electricity for years to come.

The Facts

- Texans use about 360 million megawatt hours of electricity each year; reliability issues involves perhaps only 1.3 million megawatt hours, 0.36% of annual use.

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- 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.
- Proponents of a capacity market are asking Texas consumers to pay to assuage the fears of generators and policymakers.
- There is no evidence that capacity markets boosts capacity; from 2007-2011, capacity payments in PJM (the mid-Atlantic grid) funded only 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 Texas consumers of about \$3.2 billion annually.
- Payments from consumers through the electricity tax would mainly be used to increase the profitability of electricity generators and Wall Street investment firms, not to fund new generation.
- The path to improved reliability lies through increased market efficiency and decreased government intervention.

Recommendations

- The PUC should eliminate the high system-wide offer cap.
- 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 broad 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.
- The Texas Legislature should eliminate the Texas Renewable Portfolio Standard.
- Texas policymakers should oppose the reinstatement of the federal Production Tax Credit.

Resources

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