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BILL PEACOCK: Proposed electricity tax sends wrong message to Texans — old and new

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Posted: Thursday, February 20, 2014 9:29 pm

By BILL PEACOCK / Texas Public Policy Foundation

Conservative talk show host Sean Hannity is considering moving to Texas in order to escape the big government, high-tax mentality of New York policymakers.

Before he makes a decision, however, he ought to look a little closer at the effort to re-regulate Texas' world class, competitive electricity market and impose a \$4 billion electricity tax on Texas consumers.

For about two years regulators at the Public Utility Commission of Texas (PUC) and electricity generators have been promoting the idea that Texas is running out of electricity. Their proposed solution to this problem is a government takeover of the electricity market—much like the effort by the federal government to take over the health care industry.

To pay for the takeover, the PUC would impose a "fee" on Texas electricity consumers in the neighborhood of \$4 billion a year. The revenue from the fee, or the electricity tax, would be passed along to generators and their Wall Street investors.

The only possible justification for this plan would be if Texas is "on course for ... regular rolling blackouts in just a few short years" and these payments would result in sufficient generation "capacity" to stop this from happening.

However, recent data released by the Electric

Reliability Council of Texas (ERCOT) shows conclusively that Texas has enough generation to carry it through at least 2018, with more on the way.

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The only thing capacity payments would ensure is higher profits for generators and investment bankers.

In one sense, the push for a "capacity market" should not be too surprising. Regulators tend to want to regulate. Corporations often prefer the stability of government subsidies to have to earn a profit in the marketplace. In this particular case, some businesses have made poor investments in the Texas electricity market and are looking for a bailout.

It is surprising, though—given Texas' reputation as a low tax state and the widespread public opposition to the electricity tax, that only a small number of Texas' policymakers have joined them.

Leading the charge has been PUC Commissioner Ken Anderson, who has long questioned claims that Texas is running low on electricity and the ability of a capacity market to solve any problems that do exist.

More recently, a few elected officials have begun to speak out. State Sen. Troy Fraser, joined by colleagues from across the political spectrum, has questioned the authority of Anderson's PUC colleagues to impose a tax and re-regulate the market.

Among statewide officials, Agriculture Commissioner Todd Staples has made the clearest pronouncement, noting that, "Abandoning the free market has consequences."

Part of the silence from others might be attributed to the fact that this measure is being pushed by a state agency outside of the legislative process—most certainly a major fuss would have ensued if a \$4 billion tax hike would have been proposed during the 2013 meeting of the Texas Legislature.

Nonetheless, a \$4 billion tax on Texas consumers is a lot of money. It rivals what all Texas businesses pay under the state's franchise tax. In fact, the electricity tax would immediately become one of the largest taxes in Texas, outpacing the oil production, insurance, and alcoholic beverage taxes.

On behalf of all Texans—and those like Mr. Hannity who might want to become Texans, policymakers should speak up and let the PUC know that it does not have the authority to undermine two decades of pro-competitive laws adopted by the Texas Legislature. They should also make it clear to Wall Street and generators that Texas is the wrong place to come looking for bailouts.

Bill Peacock is the Vice President for Research and Director for the Center for Economic Freedom at the Texas Public Policy Foundation, a non-profit, free-market research institute based in Austin. He may be reached at bpeacock@texaspolicy.com.



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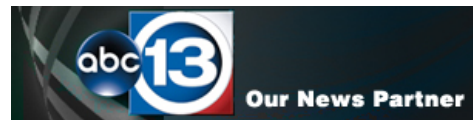
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