

# 2019-20

# LEGISLATOR'S GUIDE to the Issues

## Resource Adequacy

### The Issue

Competition was introduced into the Texas electricity and telecommunications markets in the late 1990s. Unlike the telecommunications market that has seen increasing levels of deregulation, the electricity market has been subject to a steady assault of attempts to heap new regulations on the market. Many have succeeded. Nevertheless, the competitive Texas electricity market has proved all critics wrong by supplying a reliable, affordable supply of electricity since its inception in 2002.

One attack against the market was made through a series of forecasts in 2012 of diminishing resource adequacy. This set the stage for a push by generators and the Public Utility Commission of Texas (PUC) toward vastly increasing government intervention in the electricity market. However, a more accurate assessment of the data 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). However, a series of coal plant retirements has substantially lowered forecasted reserve margins. The ERCOT December 2017 forecast projected a 9.3% reserve margin for 2018, with reserve margins of 11.7%, 11.8%, and 11.1% for 2019, 2020, and 2021, respectively.

Although these projections are all below ERCOT's target reserve margin of 13.75%, they still show that Texas should have enough electricity to meet demand for the next four years. Perhaps the biggest challenge the Texas electricity market will face during this period is keeping policymakers and the public on track with competition when supplies get tight and prices increase. All of this will be temporary, but some people start to panic when they see prices rising and want to turn to regulation.

As lawmakers deliberate this issue in 2019, the facts will show that Texas' competitive electricity market is working, and re-regulating the market by emulating East Coast capacity markets will bring harm, not good. The low electricity prices that Texas is still experiencing 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. If this summer that changes for a period, that is ok—that is how markets work. Higher temporary prices will encourage additional investment in generation, which will increase our reserves. 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%.
- Moving toward a capacity market in Texas would result in an "electricity tax" on consumers—of up to \$3 billion annually if Texas completely abandons its competitive market. 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 (ORDC) at the state or local levels to increase revenue for generators.
- The PUC should eliminate the high systemwide 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 Legislature should prohibit a capacity market in statute.
- The Legislature should reorient/eliminate the Independent Market Monitor and the regulation of market power abuse.
- The Legislature should reduce the PUC's excessive regulatory authority.
- The Legislature should make the Texas Renewable Portfolio Standard voluntary.
- Texas policymakers should eliminate state and local subsidies/abatements for renewable energy.

### 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\*](#) 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).

[\*A Texas Capacity Market: The Push for Subsidies\*](#) by Kathleen Hunker, Texas Public Policy Foundation (Sept. 2013).

[\*Does Competitive Electricity Require Capacity Markets? The Texas Experience\*](#) by Andrew Kleit and Robert Michaels, Texas Public Policy Foundation (Feb. 2013).

