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Texas' Hidden Renewable Energy Taxes

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Key Points

- Because of the harm caused by the $2.5 billion Texans are forced to pay to the renewable industry each year, we are now being forced to pay another $4 billion to keep traditional (and renewable) generators afloat.
- Increasing intervention in the Texas markets in the form of renewable energy subsidies and mandates has distorted price formation and the demand curve, leading to an increasingly dysfunctional market.
- While much of the problem with renewable subsidies is caused by the federal government, Texas does have the ability to fight back by forcing renewable generators to pay for the costs they impose on the system.

Texas' energy-only market has been the most competitive and efficient electricity market in the world. This isn't surprising since competitive markets of all kinds supply reliable and affordable products.

However, increasing intervention in the Texas markets in the form of renewable energy subsidies and mandates has distorted price formation and the demand curve, leading to an increasingly dysfunctional market. Texans are paying higher prices for a less reliable supply of electricity.

This has come about because the renewable generators have taken advantage of the competitive nature of the Texas market to earn profits by undercutting their competitors. They can do so because of the billions of dollars of subsidies they receive each year from Texas consumers and taxpayers. In 2019, we estimate the subsidies totaled at least $2.5 billion. From 2006 through 2029, the subsidies are expected to total more than $35 billion.

Texas Renewable Costs 2019			
Consumers		**Taxpayers**	
CREZ Lines	$718 million	**PTC (Wind)**	$1.28 billion
Other	$66 million	**ITC (Solar)**	$177 million
ORDC	$3.9 billion	**Chapter 313**	$250 million
Subtotal	$4.7 billion	**Subtotal**	$1.7 billion
TOTAL	**$6.4 billion**	***Without ORDC:* $2.5 billion**	

These subsidies are having a devastating effect on the reliability of the Texas electricity market. As the renewable generators undercut their competitors who generate electricity using natural gas, nuclear fuel, or coal, the incentive for these companies to invest in reliable generation has largely disappeared. Thus, we are facing low reserves of electricity to take on our hot Texas summers.

The Public Utility Commission of Texas (PUC) reacted to this by the adopting Operating Reserve Demand Curve (ORDC), an administrative price adder that increases electricity prices. The money from the price increase goes directly to Texas generators, in an attempt to incentivize new generation. In 2019, the ORDC increased electricity prices by $3.9 billion.

In other words, because of the harm caused by the $2.5 billion Texans are forced to pay to the renewable industry each year, we are now being forced to pay another $4 billion to keep traditional generators afloat. Fixing problems created by one subsidy by creating another subsidy can never work.

While much of the problem with renewable subsidies is caused by the federal government, Texas does have the ability to fight back.

continued

First, we can eliminate local property tax abatements (Chapters 312 and 313) given to wind and solar farms by school districts, counties, and other taxing districts. Next, we can eliminate the ORDC so that Texans don't have to pay for the costs imposed by renewable generators. Finally, we can force renewable generators to pay for the costs they impose on the system.

This can be done two ways:

1. Renewable generators should not be allowed to use predatory pricing to force their competitors out of business, and
2. Just like every other generator, renewable generators should be required to provide electricity when it is needed, either from their wind or solar farms or by purchasing it from other generators.

ABOUT THE AUTHOR

Bill Peacock is the vice president of research at the Texas Public Policy Foundation. He has been with the Foundation since February 2005.

Peacock directs the research of the Foundation to ensure its accuracy, integrity, and application of free market principles to the issues facing Texas and the nation. His own research focuses on economic freedom and growth, property rights, civil justice, and regulatory issues.

Peacock has extensive experience in Texas government and policy on a variety of issues, including economic and regulatory policy, natural resources, public finance, and public education. His work has focused on identifying and reducing the harmful effects of regulations on the economy, businesses, and consumers.

Prior to joining the Foundation, Peacock served as the deputy commissioner for coastal resources for Commissioner Jerry Patterson at the Texas General Land Office. Before he worked at the GLO, Bill was a legislative and media consultant, working with groups like Citizens for a Sound Economy and Putting Children First. He also served as the deputy assistant commissioner for intergovernmental affairs for Commissioner Rick Perry at the Texas Department of Agriculture and as a legislative aide to Rep. John Culberson in the Texas House of Representatives. Peacock began his career in state policy in 1989 in the Texas Senate as the analyst for public education and school finance for the Senate Committee on Education.

Peacock has a B.A. in history from the University of Northern Colorado and an M.B.A. with an emphasis in public finance from the University of Houston.

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