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Public Utility Commission of Texas
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REF: Project No. 37897, relates to resource and reserve adequacy and shortage pricing
Project No. 40268, is the rulemaking to PUC Subst. R. 25.505(g) relating to scarcity pricing mechanism

Dear Sir/Madam

Reviewing the documents for these proposed items I wish to express my concerns about these proposals. I do not understand how raising the wholesale price of electric energy will encourage power generating companies to build additional capacity. I am also concerned with the impact on retail electricity rates with this proposed increase in wholesale prices.

- It is a big deal to raise wholesale electricity rates 50% in one jump.
- Retail electricity rates will climb even higher when you factor the increased carrying costs for the power generation companies like Luminant, the power distributors like Oncor, and retail electricity companies like TXU.
- How does raising the wholesale price for electricity encourage a power generating company like Luminant to build new power generating plant capacity?
- Why would power generating companies want to build new plants or add additional capacity that will remain idle just so we have reserve capacity on hand in case we have a severe cold or hot weather event and need more electricity generated than usual?
- I see in the attachments from the PUCT, the power generating companies say the cost of operating their plants is much more expensive now compared to 2006. I can appreciate that in six years operating costs for these power generating companies may have risen. Seems like back before the electricity market was deregulated, these necessary cost increases were reviewed and implemented by the PUCT in and orderly and incremental approach. Jumping the price by 50% in one jump is excessive and will negatively affect retail customers.
- Power generating companies need a higher wholesale price to help them be more profitable for their investors and shareholders. I do not see any other benefit to be derived from this proposed rule.

FACTORS TO ENCOURAGE INVESTMENT IN POWER PLANT GENERATION CAPACITY
What is the PUCT doing to encourage power generators like Luminant to add more electricity capacity so there is plenty of unused reserve generation capacity available in case of severe cold or heat spells? If we want new power plants built or expanded we need to give power generation companies like Luminant the tax and environmental incentives to build new plants. The PUCT rule does not do anything to encourage these companies to generate new capacity.

I was in the oil and gas industry for a long time. In the oil business companies do not care about whether the price of oil is up or down as much as they want to be able to project a trend where energy prices will stay in a range and regulatory conditions for the next three years, so oil and gas companies can make decisions to invest in opportunities to explore, drill, produce, transport and refine oil and natural gas.

The power generating companies need the same help from the PUCT before they can decide to invest in creating new or expanded power generating plants. Revenue projections are important, but environmental issues (EPA & TCEQ) are critical. Tax incentives are important for new construction at the multi-billion dollar scale required to build a new power plant. What can the PUCT do to encourage investment in new power generating capacity?

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U.S. ELECTRIC POWER GENERATION CAPACITY & UTILIZATION vs. U.S. REFINERY & PETROCHEMICAL PLANT CAPACITY & UTILIZATION

According to the Energy Information Administration (EIA) utilization rates for U.S. refineries have steadily increased since oil price and allocation decontrol in 1981. The last refinery to be completed in the United States was in 1976.

Over the last 30 years, the number of refineries in the United States dropped to 149, less than half the number in 1981. Because companies have upgraded and expanded their aging operations, refining capacity during that time period shrank only 10 percent from its peak of 18.6 million barrels a day. At the same time, gasoline consumption has risen by 45 percent. We need to address the building new electric power generation capacity by changing investment and environmental policies which limit companies desire to invest in new plants and capacity.

CONCLUSION

All the PUCT is doing is acknowledging the power generating companies are not making enough profit on the $3,000 price and want to raise the price for power generating companies to $4,500 to make their existing power generation plants more profitable.

- I see much higher retail electricity rates for all Texans like you and me.
- I do not see how the PUCT proposals guarantees power generating companies will invest billions of dollars in building new power generating plants.
- Power generating companies can achieve higher profits for their investors and stockholders with a higher wholesale price as proposed by the PUCT.
- What is the incentive to these companies to build new reserve power generation capacity not to be used unless we have an unexpected spike in the consumption of electricity?

What can the PUCT do to encourage investment in Texas power generation capacity? The PUCT needs to deal with the environmental and regulatory issues facing the industry or the electric power generation industry in Texas may look like the U.S. refinery and petrochemical plant industry, higher utilization and no significant increase in plant capacity.

A larger question I offer to you is does this issue indicate there is a problem with the deregulated electricity market in Texas and we should return to a regulated market?

Sincerely yours,

William R. Leek

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cc: Lt. Governor David Dewhurst
Sen. Brian Birdwell
Rep. Charles Anderson

P.S. What factors influenced investors to build a new power plant near Riesel? I don't think it was the wholesale price of electricity.