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November 13, 2013

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Chairman Nelson  
Public Utility Commission of Texas  
P.O. Box 13326  
Austin, TX 78711

Commissioner Anderson  
Public Utility Commission of Texas  
P.O. Box 13326  
Austin, TX 78711

Commissioner Marty  
Public Utility Commission of Texas  
P.O. Box 13326  
Austin, TX 78711

**RE: Opposition to Possible Move to a Forward Capacity Market**

Dear Chairman Nelson and Commissioners Anderson and Marty:

My name is John Farris. I am the General Manager and Vice President of Nucor Steel – Texas located in Jewett, Texas. On behalf of our over 1,100 teammates and their families in Texas, I write to share my opposition to a possible move to a forward capacity market in Texas.

Nucor Corporation is proud to be a part of the State of Texas. The company has three facilities in Texas that employ over 1,100 teammates. We also employ an additional 225 people at our scrap metal and rebar fabrication subsidiaries in Texas. Nucor is a pioneer of the mini-mill concept, which uses environmentally responsible electric arc furnaces to melt scrap metal into new steel. This revolutionary manufacturing process has enabled Nucor to emerge as an industry leader at a time when conventional steel mills are experiencing severe financial hardship. Today, Nucor Corporation is the largest steel producer in the U.S. In 2012 we achieved \$19.4 billion in annual revenues. Nucor is the largest recycler in the U.S., handling approximately 20 million tons of scrap metal each year. Our steel-making process is energy intensive, and our electric bill is our second highest cost.

In my career with Nucor, I have worked at mills located in regulated electricity markets, in addition to our energy-only market in Texas. I have seen first-hand the effect burdensome and

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taxing regulations have on economic development, especially in manufacturing, in our country. It is with this experience that I wish to convey my deep concerns about the possibility of Texas moving away from an energy-only market to a forward capacity market.

Nucor believes that implementation of a forward capacity market in Texas would be a serious mistake. Since 1999, ERCOT in an energy-only market has managed to construct far more new generation than has been constructed in PJM during the same period, notwithstanding that PJM has more than three times ERCOT's aggregate load. There is absolutely no assurance that implementing a forward capacity market in ERCOT will spur the building of new generating plants. In fact, the experience in other forward capacity markets suggests the opposite. In the case of PJM, their forward capacity market is widely recognized as an abysmal failure. Despite burdening their consumers with administratively imposed non-market based capacity payments, PJM has totally failed to significantly ameliorate their longstanding shortage of new generating capacity.

My biggest concern for Texas is the chilling effect high electricity rates would have on our state's economy and on the continued economic prosperity of all Texas consumers. Everyone agrees that Texas needs plentiful and affordable electricity. A forward capacity market, however, is in my opinion the worst possible way to seek to ensure that objective. The key to Texas' success has been, and continues to be, to let competitive markets work while minimizing intrusive government intervention in those markets. Out of market subsidization of any Texas industry without regard to the thrift, business acumen and prudence of the subsidized businesses is nothing more than corporate welfare, which causes far more harm than good. The administrative imposition of capacity payments upon all Texas consumers is the equivalent of a new energy tax, and more taxes will not contribute to the future prosperity of this state. Under a forward capacity market, Texas consumers will in the future pay literally billions more in electricity with no assurance that a single additional megawatt of capacity will be built.

It is critical that Texas not lose its economic advantage due to high electricity rates. The cost of electricity drives the locational decisions of energy intensive industries. Where Nucor is concerned, it would be history repeating itself. In 2007 Nucor considered several states, including Texas, for new construction and expansion projects valued at \$2 billion. But because of the then high electricity rates in Texas—our Texas electricity rates at the time were the highest of our sister Nucor bar mills in other states—Texas was passed over for other states. Those investment dollars instead went to Louisiana and Arkansas.

Please allow the present energy-only market to continue to work. New generation continues to be built, and we should allow recent actions, like the adoption of an operating reserve demand curve and the raising of the system-wide offer caps, to be fully implemented and observe their impact on our market before even considering fundamental changes in market structure that could have severely disadvantageous and unforeseeable impacts on our state's economy. There is no need to abandon the current market structure that has powered our state's economy during the recent recession. If you believe that changes in the current market are for

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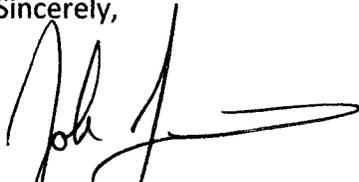
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some reason absolutely essential, then I would suggest there are more efficient and least costly options than imposing the burden of a forward capacity market on our economy. For example, the Texas Association of Manufacturers and many others support a backstop proposal put forward by the Texas Industrial Energy Consumers that would provide you the ability to ensure greater certainty regarding the level of reserves, above and beyond what the competitive free market would provide at any given time. One of these is the Supplemental Reserve Service (SRS), a longer-term ancillary service that would only be purchased when an actual reserve margin shortfall is predicted. SRS would be far more effective, narrowly tailored, and less costly than a mandated forward capacity market. The net present value cost of SRS would be \$2.2 billion over twenty years. In comparison, a mandated forward capacity market would create between \$25 billion and \$46 billion in costs over the same period. Quite simply, SRS provides the same or better assurance that a certain level of reserves will be available at a much lower cost than a forward capacity market.

I urge you to oppose a move to a forward capacity market. The current energy only market works, and recent actions can fine tune our market. If you decide major changes are needed, please consider narrowly tailored, cost effective options that apply to the specific problem at hand.

Thank you for your time, and I look forward to working with you to ensure Texas remains the economic driver of the U.S. economy.

Sincerely,



John Farris  
General Manager/Vice President  
Nucor Steel-Texas

CC: The Honorable Rick Perry  
The Honorable David Dewhurst  
The Honorable Joe Straus