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Energy & Environment

Capacity Markets Are Nothing to Advertise About

Jan 20th 2014 by Kathleen Hunker in Capacity Markets

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Two weeks ago a polar vortex prompted most Texans to huddle inside heated buildings to escape the icy weather. It also nearly caused some Texans to experience power outages.

However, the fact that Texas' competitive electricity market helped avert power outages was lost on electricity generators, who recently took out a full page ad in the Austin-American Statesman advocating for a \$4 billion electricity tax on Texas consumers.

Texans for Reliable Power, an umbrella group for several large generators, claimed in their ad that the current competitive market will be unable to supply Texas with enough energy to get through taxing weather events without rolling blackouts.

Their solution to avoid future close calls is to subsidize their companies' operational expenses through a capacity market that replaces competition with subsidies to generators.

Like most sales pitches, however, the ad melts under the heat of honest scrutiny.

Texas is not running out electricity. Texas' competitive market has consistently provided Texas with an affordable, reliable supply of electricity.

This past cold snap was no different. Although officials at ERCOT—the group that manages most of Texas' electricity grid—worried that unforeseen high demand would exceed available supply, the market made it through the national freeze without mishap.

Additionally, Texas did not skirt a power emergency because of insufficient energy reserves. At the time ERCOT announced the alert, demand had only reached 55,265 megawatts, far less than the amount of installed generation in Texas, and less even than demand the next day when energy supplies remained readily available.

Rather, Texas flirted with rolling blackouts because unreliable wind generation dropped off the grid when it was needed and several plants went offline for several hours because they had failed to adequately winterize. At the same time, other plants were offline for scheduled maintenance.

In other words, ERCOT controlled an adequate supply of capacity above the suggested reserve margin, but unexpected disruptions made that capacity temporarily inaccessible.

These types of mishaps will not be cured by re-regulating the electricity industry under a capacity market.

In fact, a capacity market is likely to reduce reliability in these circumstances. Capacity alone is no guarantee for reliability; grid operators also need to be able to convert capacity into useable electricity and then deliver it to consumers. Capacity markets reduce the incentives to make sure all this happens.

This is one reason why PJM, the mid-Atlantic's electric grid and one of the most mature capacity markets in the country, experienced rolling blackouts this past September during an unseasonal weather event. The \$54 billion that PJM customers have paid on their electricity bills to "guarantee" sufficient capacity didn't help them.

Capacity markets pay generators a set subsidy for every megawatt of capacity they own. They pay regardless of whether any energy was produced. They also pay regardless of how efficient, expensive, or reliable that capacity is.

Texas, therefore, would have to rely on an older, less efficient fleet in remote locations subject to a greater chance of transmission failure—conditions that do nothing to improve reliability but do everything to undercut it.

Why then are generators pushing for a capacity market? The answer is simple; they stand to make around \$4 billion a year in guaranteed revenue through capacity payments. Generators would enjoy government-backed profits while consumers pay twice for their electricity.

Flashy advertisements cannot distract from the truth: a capacity market will not avert rolling blackouts and may make power failures even more common. If Texans want a dependable electricity grid that carries them through the most severe arctic freezes and tropical heat waves that nature can produce, then Texas should stick with the competitive market.

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