

The Texas electricity market needs a tweak make sure we keep the lights on

dallasnews.com/opinion/commentary/2018/12/19/texas-electricity-market-needs-tweak-keep-lights

December 18, 2018



Twenty years ago this next June, Gov. George W. Bush signed the landmark bill fully opening our electric power grid to competition, and I led the team at the Public Utility Commission of Texas with its implementation.

At that time, older, less-efficient power plants were operating across Texas as part of regulated utilities. But facing competition from new and efficient suppliers, these older plants began to shut down. The new plants were financed not by a regulatory cramdown on captive ratepayers, but by the companies that operate in the competitive market. Shifting this risk from customers' backs to investors' pockets has been one of the great victories of the Texas model, yielding price and environmental benefits far greater than I ever envisioned.

One of the latest environmental benefits was the closure of several older coal power plants in eastern Texas. With their exit, the excess supply of power plant capacity that we have always had for our summer peaks is projected to fall to 8 percent next summer, well below the margin we've had in past years.

When Bush went to Washington, D.C., in 2001, he took me along to head the Federal Energy Regulatory Commission. There we pursued the same agenda of opening power markets to competition while maintaining adequate power supply. I observed, however, that other regions had put in place plans to ensure there would always be extra supply to keep the lights on. In effect, to prevent blackouts they treated the issue like we do driving, and required everyone to buy insurance. This "insurance policy" wasn't free, however. The costs of pre-paying for future power supplies are shared by all the customers in these markets outside Texas.

The state public utility commission looked at this "insurance" model the last time markets were tight – in 2013 – but decided instead to keep our original plan of having the market, not the customers, bear the risk of excess investment. To balance the risk with the chance for reward, they tweaked the market design to nudge up the prices on those rare times when electricity supply gets very tight relative to demand. This surgical fix, called the operating reserve demand curve, simply amplifies the price signal when electricity supply is tight, so that everyone who helps keep the lights on – with conservation, batteries, power production – would be rewarded for that. Given my experience, I prefer this tool as a market-based reliability solution.

Concerned with the thin safety cushion, the public utility commission is considering some adjustments to this tool to assure that the market signals are sufficient to draw new investment into Texas. And we need that investment. Plant retirements continue, and, unlike almost anywhere else in the U.S., power demand in Texas is growing. Our population is now greater than 28 million, and hundreds of new people move here every day. These companies – like Apple, McKesson and Jamba Juice – are moving to Texas because it is attractive for business, including access to affordable and reliable electricity.

When the public utility commission adopted the Texas market design two decades ago, we fully expected it to evolve. It has, as the commission has helped ease the transition to a grid with many more renewable power plants, newer-technology gas plants, widespread advanced digital meters, and more-educated customers.

In five years or so, I expect price signals will drive even greater conservation and the use of battery storage – that will be good for reliability. In planning for that future, it is key to ensure the market remains stout and reliable. To me, the cheapest and most market-oriented way to do that is to use the same tool the commission used five years ago, the operating reserve demand curve. While I am not going to weigh in on the merits of the various analyses, it is clear to me that a reasonable readjustment is nowhere near the \$4 billion cost some opponents are throwing out.

Texas is rightly proud to look to markets rather than government for solutions. A sad gaze around the country illustrates the contrast. But markets don't just happen: They work best with good policy, robust infrastructure, balanced market rules and vigilant oversight. We deserve no less.

Pat Wood III, principal of Wood3 Resources in Houston, is the former chairman of the Public Utility Commission of Texas and of the Federal Energy Regulatory Commission.