



# Energy Policy for Texas: Affordable & Reliable

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## THE ISSUE

As the nation's economy recovers from a recession, energy prices, supply, and reliability are critical variables—the future of which is uncertain and volatile. Proposed policies to increase taxes and regulatory restrictions on fossil fuels and to aggressively mandate and subsidize renewable sources such as wind, ethanol, and biomass likely will detour, if not preclude, economic recovery. A long-term solution for securing affordable, reliable energy supplies depends upon understanding the relationship between energy, the economy, and market-based innovations.

Texas has prospered in recent years as its population and economy has grown. Over the last 10 years, Texas economic growth (at 39 percent) outpaced that of the U.S. as a whole (at 28 percent). Similarly, total employment in Texas grew by 25 percent compared to the U.S. growth of 14 percent. The renewed vitality of the Texas energy sector, as well as a reliable and affordable supply of electricity, were critical drivers of Texas' economic success. Thus, our continued economic growth and the prosperity it brings and spreads, relies upon continued growth in the energy sector and particularly in electric power generation which supports all sectors of the Texas economy.

In recent years, energy production and energy-intensive industries provided 14 percent of the Texas Gross State Product. In 2007, the oil and gas industry supported 1.8 million jobs in Texas. New technologies and new energy finds dramatically enlarge the future potential of energy development and production in our state. Federal and state policies could unleash this potential or severely limit the Texas energy future.

Texas' deregulated electricity market—the most competitive market in the U.S.—provides Texas with the infrastructure necessary to meet this needed increase in energy supplies. However, current or future environmental mandates, market regulations, or energy subsidies for specific energy sources could threaten energy development, curtailing supply and increasing price.

Environmental policy must not supplant realistic energy policy. Supply, reliability, efficiency, affordability, technology, diversity, and security must drive energy policy. Environmental considerations, based on rigorous science, can then supplement and enhance the building blocks of realistic energy supply.

## THE FACTS

- ★ Texas' population of 23.5 million is projected to increase to 28 million by 2020 and 35 million by 2040.
- ★ The Electric Reliability Council of Texas (ERCOT) estimates Texas' electricity demand will rise 20 percent by 2015 and 43 percent by 2025.
- ★ Given growth projections and possible retirement of fossil-fuel electric generating plants, ERCOT estimates Texas may need up to 66,000 MW of new peak generation capacity by 2020, an 85 percent increase from 2005.

## RECOMMENDATIONS

### Developing Future Energy Supplies

- ★ Make the marketplace the mechanism for determining the future mix of energy sources, production technologies, and distribution systems. State policy should avoid mandates, subsidies, or incentives that favor specific fuels or technologies.
- ★ Remove/avoid regulatory impediments that interfere with the transmission of pricing information and efficient selection of fuel mix, including:
  - Mandates/subsidies for specific fuel use:
    - requirement that 50 percent of new generation be natural gas, and
    - the Renewable Portfolio Standard (RPS).
  - Regulations that improperly inhibit use of certain fuels (new ozone standards, restrictions on carbon emissions).
  - Permitting standards must remain technology-based and not force fuels.
- ★ Acknowledge the necessity and economic benefits of fossil fuels to meet the future of Texas base and peak loads.

### Governance—Environmental & Market Regulation

- ★ Texas energy policy should be based on the fact that existing climate science claiming that man-made greenhouse gases cause global warming is far too uncertain to justify state or federal carbon caps.

- ★ Maintain and improve current pricing mechanisms that make energy and regulatory costs transparent to end users.
- ★ Maintain current regulatory structure of the Texas electricity market; resist temptation to regulate competitive behavior.
  - Avoid/eliminate restrictions or mandates on wholesale or retail market share.
  - Avoid/eliminate price caps on wholesale and retail electricity markets.
  - Maintain Texas' successful energy-only market where investors bear the risk of investments in new generation facilities.
- ★ Assess full cost of alternative energy sources—wind and other renewables.
- ★ If the state's energy efficiency program remains in existence, change the way the state evaluates it to encompass all the costs (including those to the program, consumers, and the Texas economy) involved with energy efficiency.
- ★ Any future increases to the program's goals should be closely examined to ensure that they will reduce the cost of energy use.

## RESOURCES

*Prices, Reliability, and Consumer Choice in the Texas Electricity Market* by Bill Peacock, Texas Public Policy Foundation (Jan. 2010) <http://www.texaspolicy.com/pdf/2010-01-PP05-electricity-bp2.pdf>.

*The Texas Economy: How Would Climate Change Legislation Impact Economic Growth and Jobs?* by Margo Thorning, Ph.D. and Pinar Cebi Wilber, Ph.D., Texas Public Policy Foundation (Feb. 2010) <http://www.texaspolicy.com/pdf/2010-02-RR02-WaxmanMarkey-mthorning.pdf>.

*Texas' Ozone Success: Changing Standards Mask Texas' Air Quality Achievements* by Kathleen Hartnett White, Texas Public Policy Foundation (May 2010) <http://www.texaspolicy.com/pdf/2010-05-RR04-Ozone-khw.pdf>.

*A Tale of Two Markets: Telecommunications and Electricity, A Sunset Report on the Texas Public Utility Commission* by Bill Peacock, Texas Public Policy Foundation (May 2010) <http://www.texaspolicy.com/pdf/2010-05-RR06-PUCSunset-bp.pdf>.

*Power for the Future: The Debate Over New Coal-Fired Power Plants in Texas* by H. Sterling Burnett, Texas Public Policy Foundation (Jan. 2008) <http://www.texaspolicy.com/pdf/2008-01-PP02-power-burnett.pdf>.

*Affordable Energy and Clean Air: Texas Can Have Both* by Joel M. Schwartz, Texas Public Policy Foundation (Nov. 2007) <http://www.texaspolicy.com/pdf/2007-09-PB35-Air-Pollution-schwartz.pdf>. ★

### Energy Efficiency & Demand Management

- ★ Distinguish between two potential sources of energy efficiency:
  - Market sector efficiency gains that generate cost savings for consumers vs. government-mandated efficiency measures that increase consumer costs (e.g., building codes, mandatory smart meters, etc.).
- ★ The state shouldn't mandate energy efficiency targets. Energy efficiency gains should be market driven and not based on subsidies that make energy more expensive or on mandates to reduce energy use.
- ★ Implement and maintain pricing mechanisms that allow efficiency gains and demand management to be based on market incentives (e.g., congestion pricing).

### Infrastructure & Transmission

- ★ Maintain efforts to reduce congestion costs, i.e., nodal pricing and the day-ahead market.
- ★ Allow for the assignment of non-energy costs to the sources causing those costs to be incurred:
  - Ensure efficient placement of new generation by implementing market-based pricing into construction of transmission to reduce uplift of transmission costs, and
  - Implement market-based pricing mechanisms that allow costs associated with the unreliability of wind power—such as ancillary services and faster ramp rate power plants—to be borne by wind generators.
- ★ Do not mandate technology for smart meters or socialize costs of deployment.

