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Texas

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Keeping the Lights On in Texas: Will Big Profits Spur New Power Plants?

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BY [DAVE FEHLING](#)

The three members of the [Texas Public Utility Commission](#) (PUC) seem in agreement that the cap on the peak price for wholesale power should be raised. They'll likely finalize a massive increase this summer.

Then, the big question: will it encourage power generating companies to build more plants in Texas as intended? Or will it only encourage profit-taking and possibly even market manipulation?



DAVE FEHLING/STATEIMPACT TEXAS

Keeping the lights on at home in Houston as state regulators debate letting power companies make bigger profits

'You're carting away money, not in wheelbarrows, but in Mack trucks'

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g how to fund more power plants

At a meeting of the PUC April 12, there was disagreement over how to implement a higher cap on the price allowed on the spot market, typically a factor in [extreme weather](#) when power use surges. The current cap has been tripled in recent years and is now the highest in the nation at \$3,000 per megawatt/hour (during normal times, the price per megawatt/hour can be \$50 or less). The commissioners are considering raising the cap to \$4,500 this summer and to \$9,000 by 2015.

"What we're trying to fix is, the prices in the wholesale market are not high enough to attract investment. Would you agree with that?" asked PUC Chairman Donna Nelson to commissioner Kenneth Anderson.

"Well, I'm not sure they are. I'm not sure I agree now. They have jumped, just the changes we've made if you look at the averages...", responded Anderson.

Anderson detailed what he figured was the spread between average prices and what would happen if the \$3,000 capped-price kicked in on the hottest summer days when demand spikes.

"You're carting away money, not in wheelbarrows, but in Mack trucks," Anderson said.

But that's the theory behind dramatically raising the price cap: if the Texas electricity market is seen as lucrative and a good bet for profits, investors will be willing to fund the construction of new power plants. The state has warned that with a growing population, power generating [capacity is not keeping up](#).



TEXAS PUC

Texas PUC Chairman
Donna Nelson

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“And the longer we wait for investment, the clearer it is we’re going to have a problem having enough electricity,” said the PUC’s Nelson.



TEXAS PUC
Texas PUC commissioner
Kenneth Anderson

When Texas lawmakers “deregulated” the market for electricity in 1999, they left it up to free enterprise to build new power plants. Other states impose fees or taxes to gradually raise money to fund new plants. And therein lies a problem according to one nationally prominent utility consultant.

“Texas is the only state in the U.S. that has this curious system,” said Robert McCullough, of **McCullough Research** in Portland, Oregon.

“What has happened since Texas adopted these rules? Nobody’s built any capacity.”

McCullough contends that by raising the price cap so dramatically, it will only encourage power companies to *not* build more generating capacity. He said if companies keep supplies tight, they can profit more by taking advantage of the sky-high prices when demand spikes.

“Not only are we creating an incentive not to build new plants, we’re creating an incentive that might lead some traders to create artificial shortages. Now, that sounds like a conspiracy theory and it is a bit, but it’s not as if it’s a conspiracy theory that we haven’t seen before,” said McCullough, referring to incidents in **California, Texas** and **New York** where there have been allegations that energy traders manipulated the market to drive up prices.

McCullough said Texas already has higher electricity prices than most of its neighbors (see his graph below). He predicts the higher price cap would make Texas power even more expensive.

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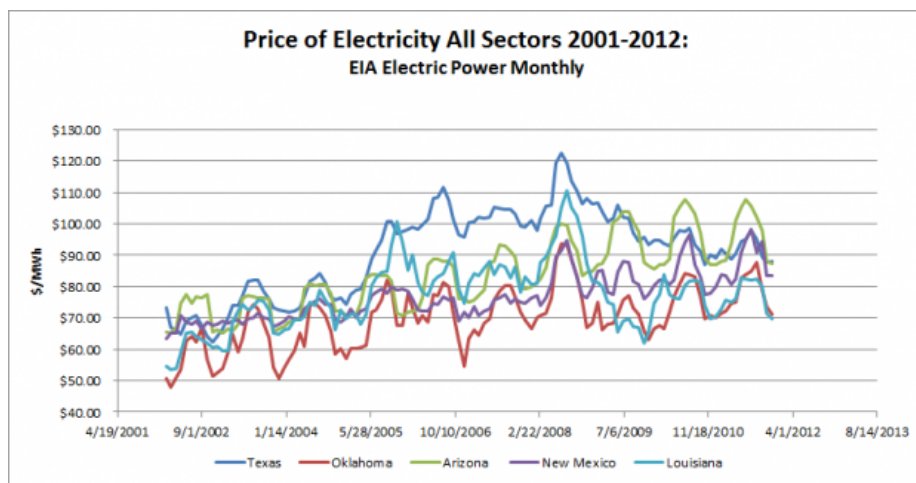
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MCCULLOUGH RESEARCH

“Here we have a state with more energy than almost anywhere else in the world, and yet it has what could only be called a failing electric system,” McCullough told StateImpact Texas.

A spokesperson for the PUC said commission members could not respond to questions from StateImpact Texas until the public comment period on the price cap issue expires at

the end of May. The issue has come before the Senate Committee on Business and Commerce, which oversees the PUC. But efforts to reach the chairman of the committee, Sen. John Carona, a Republican from Dallas, were not successful.

One Texas lawmaker who has written the PUC with his concerns over the effect raising the price cap is Sen. Sylvester Turner, a Democrat from Houston.

“If we’re talking about the summer and everybody’s turning on the switch pretty much at the same time, and the price of energy spikes, every one of us will be paying considerably more,” Rep. Turner told StateImpact Texas.



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Ray Gilbert



Why does anyone think this price hike will encourage anyone to build generation. Let's see, if I build generation and solve the problem, then I don't get the higher prices. If I leave it alone, then I do get the prices -okay, I won't build.

Another reason that generation is not being built - Generators need kwh sales. Anyone can sell electricity across the peaks, but to pay for a generator you have to sell kwh all year. But the West Texas wind farms have massive amounts of wind generation during periods of light loads wiping out the off peaks sales for generators. Thus the new generators have to be able to recover all their costs in the short peak periods and not have any off peak sales.

Let's build more West Texas wind farms, that will solve all our problems. Hey even build a massive amount of transmission grid outside of ERCOT to capture more wind but whatever we do don't bring the Panhandle into competition since they don't have a strong enough Transmission Grid (oh wait, we the ERCOT customers are spending 5 Billion dollars to build a transmission grid) to allow them to have competition. Sounds like someone has sold us a bill of goods!

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