



The Decline and Fall of Reliability, Affordability, and Competition in ERCOT

By Bill Peacock

Executive Summary

Problems with generation adequacy and reliability in the Texas grid were once rare occurrences. That does not appear to be the case anymore. For two straight years the grid has struggled to keep the lights on, despite promises that “everything that needed to be done was done to fix the power grid in Texas” after the 2021 blackouts. The foundation for the reduction of reliability in the Electric Reliability Council of Texas (ERCOT) is the politicization of the Texas electricity market—particularly the push for renewable energy—and the resulting collapse of competition in the market.

In response to Texas’ blackouts, regulators at the Public Utility Commission of Texas (PUC), under the direction of the Texas Legislature and Gov. Greg Abbott, have undertaken a restructuring of the Texas electricity market. At a July 2021 press conference, PUC Chairman Peter Lake was asked if a “capacity market was on the table” in the conversations about market restructuring. He responded by saying, “That was not addressed in legislation by the 87th Legislature.” Nonetheless, actions taken by the Texas Legislature, the PUC, and ERCOT point to the end of Texas’ world-class energy-only market and the onset of a de facto capacity market in Texas, an outcome that a number of parties have been promoting for over a decade.

Though regulators at the PUC, grid managers at ERCOT, and advocates for renewable energy must share some of the blame for what has happened to the Texas grid over the years, the ultimate responsibility for the collapse of the grid in ERCOT rests in Texas’ Legislature, governor, lieutenant governor, and House speaker. For years they have supported giving billions of taxpayer and consumer money to corporations with multi-billion market caps while being unwilling to take on renewable energy.

The greatest danger that the Texas grid faces now is the political establishment’s continued unwillingness to challenge the environmental left’s and energy industry’s push for subsidies. If this continues, Texas will lose what is left of its competitive energy-only market. Yet the possibility of restoring reliability, affordability, and competition to ERCOT remains. All Texas has to do is let the market work.

Restoring Reliability, Affordability, and Competition in ERCOT

There is a path forward for restoring reliability, affordability, and competition to the Texas electric market. And despite the current politicization of the market, the path is relatively uncomplicated from a policy perspective.

Eliminate All State and Local Renewable Energy Subsidies

Texas subsidies for renewable energy will cost just over [\\$900 million this year](#). To restore the ability of reliable generators using natural gas, coal, and nuclear fuels to compete on price against renewables, all state subsidies for renewables must be eliminated. Additionally, Chapter 313 property tax abatements, that are scheduled to expire this year, should not be renewed by the Texas Legislature in 2023.

Maintain ERCOT's Energy-Only Market by Rejecting All Efforts to Establish a Minimum Reserve Requirement

Whether through an LSERO or other means, Texas should reject any effort to mandate a reliability standard. Any firm or required reliability standard would bring an end to the energy-only market and import a northeast-style capacity market that has [proven to be a failure](#) when it comes to maintaining a reliable and affordable electricity market.

Require Renewable Generators to Pay for the Costs They Impose on the Grid Because of Intermittency and Federal Subsidies

While Texas can do nothing itself to eliminate federal subsidies, it can take steps to mitigate the harm they cause. Texas should introduce a firming requirement on renewable generators under which they—rather than Texas consumers—would have to pay for the electricity they fail to deliver because of weather conditions. Additionally, Texas should adopt some form of a minimum offer pricing rule (MOPR) that keeps renewable generators from using subsidies to support their predatory pricing practices.

Eliminate the ORDC, the RUC Mechanism, and Other Ancillary Services That Hinder the Formation of Market Prices while Returning the Wholesale Price Cap to \$9,000

The Texas Legislature should eliminate the ability of the PUC and ERCOT to set or manipulate market prices and allow high peak market prices to provide an incentive for generators to build new generation to meet Texas' growing energy demand.

Incorporate Marginal Transmission System Losses into Pricing

ERCOT currently pays generators for the amount of electricity they put into the system, regardless of how much of that energy is lost during transmission over long distances. All generators should be paid only for the electricity that reaches customers. This could save consumers as much as [\\$225 million](#) annually.

Eliminate the PUC's Excessive Authority to Intervene in Market Activity

Since 1999, the Texas Legislature has increased the PUC's authority to intervene in the market in numerous ways. This includes antitrust authority to stop potential market power abuse, emergency cease and desist authority, the ability to disgorge revenue, and authority to approve mergers and acquisitions. None of these have ever been used to benefit the market for the simple reason that the competitive market has served to keep the market healthy—at least when the PUC is not interfering with it. These and related powers of the PUC to intervene in the Texas market should be eliminated.