



## ERCOT Reliability and Price Volatility

The Electric Reliability Council of Texas (“ERCOT”) was formed in 1970 to coordinate electric power flows between fully-regulated electric utilities in the state to ensure power grid reliability.

In 1999, the Texas legislature passed a comprehensive bill (SB7) creating competition in major investor-owned electric utility territories. Since then ERCOT has grown into one of the most progressive and efficient electricity markets in the country.

Like other competitive markets, ERCOT has lowered electricity prices and increased renewable power generation.

However, over-emphasis on price and environment over the last two decades has diverted ERCOT’s primary focus from its original mission to provide a reliable supply of power to all consumers.

Although the ERCOT grid may not fail or cause brownouts and blackouts this summer as some predict, it does increase the risk that these events could occur. At a minimum, electricity prices will increase.

What factors have intensified ERCOT reliability and price issues?

- Substantial reductions in natural gas costs and government subsidies for renewable generation have dropped wholesale electricity prices to abnormally low levels;
- ERCOT offers little direct value to generating companies to maintain available capacity or back-up fuel as needed operating in an “energy only” competitive market;
- These factors have intensified financial hardships for independent competitive generators leading to bankruptcies, plant retirements and a sharp reduction in the addition of new natural gas generation into the market;
- Relatively rapid and substantial expansion of wind and solar generation as a percentage of total production has created an electrical system more susceptible to supply and use instability, increasing risks of higher prices, brownouts or blackouts.

The PUCT and ERCOT should act now, working in tandem with market participants to develop a strategic vision for the next step in the evolution of the power system in Texas.

Now is the time to support an expanding, robust economy in Texas.