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The Honorable Greg Abbott  
Office of the Governor  
PO Box 12428  
Austin, Texas 78711-2428

Chairman Lake  
Commissioner McAdams  
Commissioner Cobos  
Commissioner Glotfelty  
Public Utility Commission of Texas  
1701 N. Congress Avenue  
PO Box 13326  
Austin, TX 78711-3326

Dear Governor Abbott, Chairman Lake, and Commissioners,

We are writing to you on behalf of the largest manufacturing employers and taxpayers in the state of Texas. TAM’s member companies have collectively invested hundreds of billions of dollars in Texas. These companies conduct a wide range of industrial and manufacturing processes, including petrochemicals, semi-conductors, refining, LNG, oil and gas production, industrial gases, paper products, pharmaceuticals, and aerospace manufacturing, to name just a few.

Texas manufacturers are the State’s biggest job creators, and account for 13.07% of the total economic output in the state—more than $241 billion as of 2019. Manufacturers employ more than 881,000 Texans in jobs that pay an average of over $90,100 annually. Each manufacturing job created also provides an average five additional jobs in local Texas communities. Texas has been the number one exporting state for manufactured goods in the United States for almost two decades. With your partnership and support for a strong business environment, Texas has become the number one business creation, relocation, and expansion destination in the world. Nine straight “Governor’s Cup” wins can’t be wrong.

Electricity is typically one of the top three production costs for manufacturing and industrial companies. While many factors play a role in business siting decisions, electricity costs are a key driver for our members. For more two decades, Texas has been a leader in designing competitive wholesale and retail markets that deliver reliable electricity at efficient, market-based prices. Other regions have been
reluctant to allow free market competition to replace centralized, bureaucratic utility regulation. Texas’ deregulated model forces electric companies to provide higher reliability at a lower cost. Our market design has benefitted all customers, from large manufacturing facilities to our employees in their individual households.

Winter Storm Uri exposed operational and coordination issues within ERCOT, but it was not a failure of our fundamental competitive market design. We appreciate your commitment to addressing the root causes of Winter Storm Uri, rather than undermining Texas’s successful market design as others sought to do. The measured, targeted legislation that you signed and supported last session addresses the core issues that contributed to the February event. Throughout the legislative session, customers united to urge the State not to punish Texas consumers for the gaps that were exposed during the winter storm. Customers strongly opposed costly market design proposals that would mandate additional payments to existing generators for “just existing.” Hundreds of hours of hearings, deliberation, and hard work culminated in comprehensive legislation to ensure our grid can withstand the challenges of extreme winter events, as well as the increase in variable generation on our grid.

SB 3 and other landmark legislation passed under your leadership ensures that we appropriately weatherize our power plants, that we have additional fuel security during cold weather events, and that the PUC and ERCOT procure “ancillary or reliability services” necessary to ensure appropriate reliability during extreme heat and extreme cold weather conditions as well as during times of low non-dispatchable power production in the power region.” The requirements of SB 3 complement and improve upon our existing market design, rather than replacing it with the heavy-handed, bureaucratic capacity mandates we have seen in the rest of the country. These capacity mandates increase costs to consumers, but they do not ensure reliability. While others took Uri as an opportunity to attack Texas’s successful competitive model, you worked hand-in-hand with the legislature to pass key legislation that addresses the actual issues.

Reliability is paramount to manufacturers. Our operations and the safety of our employees depend on it. We share concerns about adapting to our evolving generation mix, the impact of federal tax subsidies on energy market prices and investment, and the need to implement new reliability tools to address the intermittency of renewable generation. Under your leadership, substantial progress in addressing these issues has already been made through robust changes to ERCOT’s pricing and ancillary service procurements. We believe that additional targeted improvements to ERCOT’s ancillary and reliability services, including the “conservative operations” implemented this past summer, are the key to supporting investment and ensuring reliability for customers in ERCOT. A longer-term “backstop reliability service,” which is also under consideration at the PUC, would provide an additional scalable insurance policy within the directives of SB 3. Targeted incentives for new, flexible generation and storage resources would also support reliability as our grid evolves. While customers will undoubtedly bear the additional costs of these proposals, we believe the ancillary and reliability services envisioned under SB 3 will provide a cost-effective solution that will actually improve reliability for customers.

We are writing to express our concern with proposals that would supplant Texas’s competitive energy market with a “resource adequacy” or “forward capacity” mandate, similar to expensive proposals that have failed in other jurisdictions. The Legislature considered several similar proposals last session and rejected them in lieu of the ancillary and reliability services required under SB 3. In particular, the “Load Serving Entity (LSE) Obligation” being championed by certain incumbent generators at the Public Utility
Commission would create government-mandated payments from Texas customers to existing generators—including those who failed us in February. As our members see it, this is like giving someone a raise for failing to show up to work. An LSE Obligation (as that term is typically used in electric markets) is a decentralized forward capacity market. Similar market designs have been adopted in the Midwest and in California—areas where most electricity is also still provided by fully regulated, monopoly utilities. This “market” design has not improved reliability or changed investment trends—it has only increased customer costs and generator profits. In fact, by shifting generator profits from a performance-based model to guaranteed payments, reliability has actually deteriorated in many instances. It hasn’t worked there, and it won’t work here.

Our members chose Texas for a reason, and Texas’s competitive electric market was an important part of that choice. As global companies operating in electric markets across the world, we seek your continued support for the electric market design that has made Texas a destination for businesses and individuals alike. We urge you to continue supporting targeted “ancillary and reliability services” that meet the needs of our grid under SB 3, and not to abandon our innovative competitive market design. We thank you for the hard work you have done to improve electric reliability in Texas, and your commitment to a regulatory environment that supports continued economic development and business expansion.

Sincerely,

Richard A. “Tony” Bennett
President and CEO