

Texas Business Electricity Rates SOAR

Amid Retired Coal-fired Power Plants



By Alan Lammey

Over the course of the last year or more, some of the articles featured here in NBIZ Magazine have repeatedly warned of an impending surge in commercial electricity rates for businesses in the Lone Star State. As it stands now, the big hike in electricity rates has undoubtedly arrived and Texas businesses that have electricity contract renewals coming up this summer are going to be in for a rather shocking surprise.

Along with climbing natural gas prices as well as aggressively ascending oil prices above \$70 per barrel, which are at the highest price level since 2014, electricity rates have also shot up by as much as 30 percent to 40 percent since late February 2018.

This power price increase has been a long time coming as it partially stems from Obama-era mandates on the U.S. coal power plant industry via the 2015 'Clean Air Act', which is just now beginning to take shape in a big way and will undoubtedly hit consumers in the pocketbook starting this summer.

Ghost of the Clean Air Act Manifests

The Clean Power Plan, issued under the Clean Air Act, was an Obama administration policy aimed at combating climate change (global warming),

which has roots going back to June 2014. The plan basically required individual states to meet specific standards with respect to reduction of carbon dioxide emissions to mitigate global warming. States were free to reduce emissions by various means, but had to submit emissions reductions plans by September 2016. If a state had not submitted a plan by the due date, the EPA would have imposed its own plan on that particular state.

The EPA divided the country into three regions based on connected regional electricity grids to determine a state's goal. States were to implement their plans by focusing on three building blocks: increasing the generation efficiency of existing fossil fuel plants, substituting lower carbon dioxide emitting natural gas generation for coal-powered generation and substituting generation from new zero carbon dioxide emitting renewable sources for fossil fuel-powered generation.

States were highly pressured to use regionally available low carbon generation sources when substituting for in-state coal generation and coordinate with other states to develop multi-state plans. In a nutshell, it was putting a country-wide kibosh on coal-fired power generation.

Texas Says Good-bye to Several Large Coal-fired Power Plants

Fast-forward to the Spring of 2018. As a result of the aforementioned Clean Air policies that were imposed a few years and coupled with other lower cost competitive fuels, the State of Texas lost three coal-fired power plants. The State saw the shut-down of these coal-fired power plants earlier this year and, as a result, there has been a drop in the State's backup power reserves, which presents a problem particularly during record-high power demand on peak summer days. And, in fact, the three plants that were closed forever had the ability to produce 4,167 megawatts of electricity, which is enough to power nearly 2.1 million Texas homes and hundreds of thousands of businesses. Combined, they accounted for about 22 percent of the State's coal power plant capacity.

The Electric Reliability Council of Texas (ERCOT), which is the grid operator for most of the State, contends that despite the multi-plant closures, there should be enough power to go around this summer, but the loss of power reserves has sent both commercial and residential electricity rates soaring in recent weeks. Consequently, the price volatility that has been caused in the wholesale power market as a result of

these plant closures has some Texas Retail Electricity Providers (REPs) completely backing out of the summer power market altogether.

Even though the Lone Star State has added approximately 8,000 megawatts of efficient natural gas power plants since 2014, with the Texas economy thriving, power needs have been growing constantly, therefore, the shuttering of the coal-fired power plants has rendered a bit of shock to the electricity market.

A Hotter Than Average Texas Summer Could Spell Trouble

ERCOT expects record-breaking demand for power during peak days this summer alongside limited supplies of backup power, therefore, the grid operator would have to take action to prevent outages in the months ahead.

If summer temperatures get particularly hot and if it's not quite breezy enough at Texas wind-power farms, or if other power plants go down, there could be problems.

According to ERCOT, if these situations do emerge, plans to fully utilize any available generation capacity would be kicked into action, and then if necessary, the implementation of demand management procedures would be put into play. Controlled brownouts or blackouts would be the last extreme demand management actions that would be taken.

How Does a Business Deal with Rocketing Power Prices?

Any business owner that has an electricity contract coming up for renewal this summer, between June and October, will undoubtedly see a major

jump in commercial electricity rates compared to prior years. However, there are ways to mitigate paying higher long-term electricity rates, such as coupling short-term contracted rates with longer-term contract rates. This summer it would be particularly wise for Texas business owners to consider working with an energy consultant that can provide options and strategies on how to keep rates at a minimum in order to reduce the bottom line of overall energy costs. **N**

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