



MEMORANDUM

To: Sandie Haverlah - Consumer Fund of Texas
From: Joshua Rhodes, PhD - IdeaSmiths LLC
Date: May 26, 2023
Re: Preliminary analysis of the impact Texas House Bill 1500

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IdeaSmiths LLC has been retained by the Consumer Fund of Texas to provide an analysis of the overall cost and market implications of energy-related bills before the 2023 Texas legislative session.

The Texas Senate version of HB1500 (aka the PUCT Sunset bill) recently moved forward with approximately 15 energy-related amendments on May 24, 2023. Our preliminary analysis indicates that all together, these amendments could significantly increase the price of Texas electricity, possibly by as much as **50%, or \$10 billion dollars** per year.¹

One of the difficulties of analyzing so many changes to the electricity market at once is that it is unclear how each of these will interact with each other, but it is likely that such a tranche of untested and unstudied changes will result in a much less efficient electricity market. These induced market inefficiencies would likely result in billions, if not tens of billions, of dollars in higher wholesale electricity market costs. These higher wholesale costs would then translate into hundreds of dollars per year of higher electricity bills for residential consumers and very likely thousands, if not tens or hundreds of thousands, of dollars in higher bills for commercial and industrial users.

Individual analyses of parts of HB1500 indicate that electricity market cost increases could approach **\$9 billion per year** based on bill language and our previous analysis of some of its components:

- Cost allocation of ancillary services to generation: **\$4 billion**²
- The Dispatchable Reliability Reserve Service: **\$4 billion**³
- The Performance Credit Mechanism: Capped at **\$1 billion**⁴

¹ ~\$30 billion per year in the ERCOT market vs. ~\$20 billion.

² https://www.ideasmiths.net/wp-content/uploads/2023/05/IS_CFT_SB7_memo_20230503.pdf

³ http://consumerfund.org/pdf/IS_CFT_DRRS_memo.pdf

⁴ As per TX SB7/HB1500.



Two additional major changes would add costs to the market which are harder to quantify:

- The firming obligation which would appear likely to require solar to purchase enough backup power for the entire night.
- The new strict permitting requirement which could delay renewable projects for several years.⁵

Assuming that these new requirements result in **75% less renewable development** over the next three years, we estimate that wholesale electricity market prices will be **\$500 million to \$1 billion** higher per year than they otherwise would be.⁶

Further, if the permitting regime were to retroactively apply to existing wind and solar generation, ERCOT market prices could increase by **\$6 billion to \$15 billion** per year assuming that most wind and solar generation would have to exit the market.⁷

⁵ The PUC would have to develop an entirely new permitting system to accommodate this change.

⁶ Based on our previous analysis showing that electricity market prices would be \$6.1B to \$15.2B higher in 2023-2025 if no renewables were built. This calculation assumes current renewables stay, but new deployment is reduced by 75%:

https://www.ideasmiths.net/wp-content/uploads/2023/05/Impact-of-Renewables-in-ERCOT_FINAL.pdf

⁷ Depending on the price of natural gas.